













**COOPERATIVE  
RETAIL BUYING ASSOCIATIONS**



# COOPERATIVE RETAIL BUYING ASSOCIATIONS

BY

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To My  
MOTHER AND FATHER



## PREFACE

Cooperative retail buying associations have existed in the United States for over 40 years. They showed a steady growth in numbers until the depression which followed the Great War in 1921. Within the past two years, renewed interest has been manifested.

The primary purpose of such organizations is to reduce the wholesaling expenses charged to merchandise which independent retailers commonly purchase from service wholesalers. There are three methods by which the reduction can be brought about: (1) eliminating the functions performed by an independent distributor, (2) reducing the cost of performing one or more of the wholesale functions, or (3) shifting the cost of performing one or more of the wholesale functions to the manufacturers, other types of wholesalers, or retailer-members of the association.

The thesis of this study, therefore, is (1) to determine whether the cooperative retail buying association is a more economical distributor of merchandise than the customary service wholesaler, and (2) upon such analysis, to predict the future of this method of distribution.

Before considering the possibility that retail buying associations eliminate the necessity for performing certain wholesale functions, it is necessary to determine what functions service wholesale organizations perform. Following the generally accepted classification first suggested by Weld,<sup>1</sup> the typical service wholesaler of dry groceries and drugs performs the functions of selling, credit, delivery, buying, and storage. These same functions are performed by cooperative retail buying associations. Not all associations perform all, nor do all perform each one to the same degree; but cooperative retail buying associations, contrary to statements sometimes made, do not eliminate the necessity and cost of performing a single function.

It is then with the two remaining questions that this book is largely concerned: To what extent do cooperative retail buying associations perform certain definite functions more economically

<sup>1</sup> "The Marketing of Farm Products," The Macmillan Company, 1915.



than does the service wholesaler in the same field? To what extent do they force other institutions, such as the manufacturer, the service wholesaler, or the retail member, to assume such performance and the accompanying expenses?

Chapters I to III present the setting for a study of present cooperative organizations. Chapter IV contains an analytical study of operating costs. Chapters V to IX present a detailed study of five important marketing functions which are performed to a varying degree by cooperatives. Chapters X to XIII introduce general problems of organization, management, location, and cooperation. Chapter XIV attempts to estimate the present status of this type of distributive organization, and Chapter XV ventures predictions of future trends.

Much of the material used as the basis for this book was gathered in the field. Additional facts were secured by correspondence, from the managers of cooperative retail buying associations, manufacturers, and retailers. The following list indicates the method of procedure used in securing information concerning associations.

	Hard- ware trade		Drug trade		Grocery trade	
Personal calls.....	..	1	..	9	..	5
Questionnaires mailed.....	1	..	11	..	91	
Questionnaires returned.....	1	..	7	..	29	
Questionnaires used.....	..	1	..	2	..	24
Total reports.....	..	2	..	11	..	29

With few exceptions, contact with manufacturers has been maintained by correspondence.

	Drug trade	Grocery trade
Questionnaires mailed.....	86	46
Questionnaires returned.....	61	30
Questionnaires used.....	47	26

A similar method was employed to secure information from retailers, members and non-members of cooperative retail buying associations.

	Drug trade	Grocery trade
Questionnaires mailed.....	612	97
Questionnaires returned.....	197	6
Questionnaires used.....	186	0

The figure 186 includes 37 "city" and 59 "country" members of a large middle-western drug cooperative association, as well as 33 retailers in the territory served by this association who are not members. It also includes 57 members of two eastern associations. One group of cooperating retail grocers was also circularized, but the response was so small that further work in this direction was abandoned.

With the exception of material concerning one middle-western cooperative association which was supplied by the Harvard Bureau of Business Research, the statistical information and facts on associations are based upon these reports.

In the task of bringing together such statistical data as are found in the subsequent pages, any research worker becomes indebted to a host of cooperators. Whenever possible, the author has acknowledged the source of materials and opinions in the footnotes. Unfortunately, in such a study, the names of interested business men cannot be given. Without exception, however, executives connected with cooperative retail buying associations, chain stores, and wholesale houses have given liberally of their time and information. The author hopes that his effort to bring these data together in organized form in this volume may be, in part, compensation for courtesies extended.

The author is deeply indebted to Dr. M. T. Copeland for aid in outlining the scope of this research project and for subsequent analytical suggestions. He wishes to express his appreciation to Professor M. P. McNair, assistant director of the Harvard University Bureau of Business Research, and to Miss Mildred C. Varney, its executive secretary, for statistical summaries which proved invaluable. He is grateful to the members of the

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To Mr. William F. Ferrin, a unique debt of gratitude is acknowledged. Finally, the writer desires to express his appreciation for the continued help of his wife, Irma Reed White, who has kept him at the job, who has assisted him materially at every stage of his work, and who yet has had time to further many objectives of her own.

WILFORD L. WHITE.

AUSTIN, TEXAS,  
*February, 1930.*

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as Better Service Stores, Inc., of Portland, Ore.; Omaha Handy Service Stores; Retail Service Store Grocers of Chicago; Niagara Independent Grocers Association, Niagara Falls, N. Y.; in the drug trade: the Rexall Club of St. Louis; the Associated Drug Stores of Minneapolis and St. Paul; the Red Star Stores of Syracuse, N. Y.; the seven Quality Drug Stores of Schenectady; and the Qualified Pharmacies of Utica. Occasionally service wholesalers, such as the Michigan Wholesalers Association, Saginaw, Mich., which advertises home-owned stores to the public of that state, initiate or support such advertising.

In the third place, retailers in the same trade often form local associations for the conducting of weekly or, more often, monthly meetings at which some outside speaker discusses common management or operating problems. Very often, such meetings include luncheon or dinner, during and after which the members exchange experiences. Such a practice is followed by the Greater Newark Retail Druggists Association, the Toledo Drug Club, the Boulder (Colo.) Retail Grocers Association, and Syracuse Grocers, Inc.

**Collective Buying.**—By far the most important purpose of retail cooperation, however, is the promotion of collective buying, and it is with such purpose that this study is concerned. Collective buying may be encouraged to enable retail cooperators to secure partial control of the channels of distribution, a control made possible by pushing private brands originated by the group itself. The primary aim of collective buying, however, is to reduce the cost of merchandise to the retailer. The accomplishment of this purpose needs careful examination, but its consideration should be prefaced by (1) an explanation of what is meant by such an organization, (2) an enumeration of its causes, (3) an estimation of its present strength, and (4) an estimation of competition.

**Definition.**—A cooperative retail buying association is an incorporated organization of financially independent retailers which acts as a common but distinct wholesale distributor for its members, buys in its own name, and warehouses its purchases. Such a definition is necessary at the outset to avoid the confusion resulting from the common application of the term "cooperative buying" to various types of cooperative distributive effort. Organizations which are not considered in this study are (1) consumers' cooperatives or cooperative wholesale societies formed to

supply such cooperatives;<sup>1</sup> (2) buying clubs or pools;<sup>1</sup> (3) buying groups or syndicates;<sup>1</sup> (4) manufacturer-retailer cooperatives,<sup>1</sup> and (5) cooperative wholesale buying associations.<sup>1</sup>

### SEMICOOPERATIVE ORGANIZATIONS

Although excluded by definition, certain other types of cooperative distributive effort are given more attention, primarily for competitive reasons. There are, first, the semicooperative organizations owned and controlled by a small group of men who sell buying privileges, non-voting stock, or a minority share of voting stock. Second, there is the contract wholesaler who has introduced independent wholesaler-independent retailer cooperation.

Two examples of privately owned wholesale grocery organizations which sell buying privileges to their members are the Royal Blue Store, Inc., Chicago, and the Spartan Grocers, Inc., Los Angeles. The independent retailers who own and operate Royal Blue Stores do not own any stock in the central organization. Each pays \$25 a month for his buying privileges and in return receives merchandise from the warehouse at a 6 per cent wholesale mark-up. To become a member of Spartan Grocers, Inc., a retailer pays a membership fee of \$25 and monthly dues of \$4. In addition, however, each member deposits \$200 to cover his weekly purchases.

**Mutual Organizations.**—Among those organizations selling non-voting or a minority share of their voting stock, the Mutual Drug Company of Cleveland is the outstanding example in the drug trade. At least 50 per cent of the voting stock is held by F. T. Roosa and his associates. Retailers can become members by purchasing varying quantities of class B stock or by paying a \$25 membership fee and making a \$200 deposit to cover orders. The company has branches at Columbus, Chicago, Detroit, Kansas City, Pittsburgh, and Milwaukee, is capitalized for \$5,000,000, controls the Burroughs Manufacturing Company, Baltimore, Md., and is reported to have had sales, in 1926, of about \$18,000,000, which were made to between 4,000 and 5,000 customers, many of whom were members. All sales are made at regular wholesale price, rebates based upon purchases

<sup>1</sup> For a brief explanation of the method of operation and for a justification of their exclusion, see Appendix A.

being distributed at the end of each month, the amount depending upon the legal relationship of the customer to the company.<sup>1</sup>

Within the past 18 or 20 months, the Mutual Drug Company has organized a number of wholesale and retail druggists into a group called Ure Druggists, Inc., an Ohio corporation. The wholesale members are Ellicott Drug Company, Buffalo; Los Angeles Drug Company; St. Louis Wholesale Drug Company; and Union Wholesale Drug Company, Boston, all cooperative associations; and Hoosier Drug Company, Indianapolis; Ellis-Jones Drug Company, Memphis; Fry Drug Company, Portland, Ore.; and the Mutual Drug Company, Cleveland, Ohio, all mutual organizations. This organization is called the "largest chain of individual drug stores in the world" with "\$100,000,000 invested capital at wholesale and retail." At present, the main purpose of the organization is to sell collectively to manufacturers space in the windows of the 10,000 retail members. This space is to be paid for in merchandise. The wholesalers advertise in the newspapers in each city of their territories with a population of 10,000 or more. The retailers promise to give the window trims the proper attention, to display the merchandise so advertised, and to push its sale.<sup>2</sup>

<sup>1</sup> The Mutual Drug Co. of Cleveland was originally a cooperative retail buying association. In 1909, Mr. Roosa assumed all the debts of the association, in return for which he was given control. Three other examples of cooperative retail buying associations which have come into the control of a small group of men are the Cincinnati Economy Drug Co., with branches at Atlanta, Ga., and Dayton, Ohio; J. K. Teeporten, Ltd., Vancouver, B. C., Can.; and the Boston Wholesale Grocery Co. When the Cincinnati Economy Drug Co. began to expand, the original group of retail owners sold non-voting stock and buying privileges to the newer ones, thus keeping control in their own hands. The Teeporten Co. was originally operated as a service wholesale drug house, all of the capital stock of which was later sold to a group of retailers. They could not keep up their payments, with the result that control went back into the hands of the original owners, although the retailers are still interested financially in the business. The Boston Wholesale Grocery Co. placed few restrictions upon the ownership of its stock, with the result that gradually a majority share was owned by the management, retired members, and the estates of deceased members. Since the common stock has drawn 10 per cent dividends for a number of years, it has been held for investment.

See, also, p. 13.

<sup>2</sup> *Pharm. Era*, p. 297, October, 1928.



During August, 1928, some eight meetings were held throughout the state of Ohio on the subjects of cooperative buying, sale of windows to manufacturers, weekly window service, special two-for-one sale, and collective advertising. All retail members were urged to be present.

Service wholesalers, especially those in the drug trade, have turned to this type of cooperative effort in self-defense. A good example is the Snowden-Mize Drug Company of Atchison, Kan. This company, privately owned and operated for a number of years, was recapitalized in August, 1927, for \$500,000, divided among preferred and common A and B stocks. The preferred, cumulative, and common A, which is the voting stock, are held by the previous owners and present management. Class B common stock, which is non-voting, is held both by the original owners and by a trusteeship. The holdings of the latter are to be distributed to the active contract customers of the house. Certain customers are given, without charge, one share valued at \$25; others, ten shares, depending upon previous contracts between the retailers and the company. Any retail customer can buy common B stock at par. The stock is not for sale to the public.<sup>1</sup>

The most prolific examples of this type of cooperation, however, are those organizations which are started by promoters, some of which grow into permanent organizations, but most of which quickly come and go. One example in the drug trade which has established no branch warehouses and has continued to operate for some time is the United Consumers, Inc., Boston, Mass.<sup>2</sup> In the grocery trade, there are the General Purchasing and Distributing Company, San Francisco, and the Creasey Corporation of Louisville. This latter company, under other names, such as the L. C. Mercantile Company, since 1912, has established at least 79 branches throughout the United States, according to reports made to *Thomas' Register of the Grocery and Kindred Trades*. Of this number; 58 branches were opened during

<sup>1</sup> The Jefferson Drug Co., Beaumont, Tex., is another example. In the grocery field, there is the Elmira Wholesale Grocery Co., Elmira, N. Y.

<sup>2</sup> For samples of its literature, see Appendix C.

1919 to 1921 and 28 failed during 1922 to 1923.<sup>1</sup> Only 35 were in operation in January, 1928.

**Contract Wholesalers.**—The second type of semicooperative effort is called, in the trade, "contract wholesaling." This is commonly carried on by a service wholesaler who, alone or with others, organizes an association which retailers join by signing a contract which binds both parties to certain obligations. There are two outstanding examples of this type in the grocery trade: the Red and White Corporation, Buffalo, and the Independent Grocers Alliance, or, as it known in the trade, the I. G. A., Chicago. So far as it is known, the forerunner of the Red and White Corporation was the first attempt at this method. It was originally started by a Mr. Lewis in 1913 under another name as a brokerage office handling canned goods with the Serv-Us label. In 1920, S. M. Flickinger, president of the S. M. Flickinger Company, wholesale grocers of Buffalo, bought out the brokerage office and moved it to Buffalo. In 1922, the first Red and White Stores were developed. In the fall of 1927, the Red and White Corporation took over all the assets and liabilities of the old business.

At present, the central office acts as a brokerage office for Red and White and Blue and White brands. The cooperating independent service wholesaler buys all his other merchandise from regular sources, although the central offices may be used as broker. He signs up as many retailers as possible. The

<sup>1</sup> The first branch was reported to Thomas' Directory in 1912. Subsequent reports show the following activity:

	Branch opened	Branch closed
1912.....	1	0
1914.....	3	0
1917.....	4	0
1918.....	1	1
1919.....	11	0
1920.....	28	1
1921.....	19	3
1922.....	4	22
1923.....	4	6
1924.....	1	6
1925.....	1	1
1926.....	0	1
1927.....	3	2
1928 (March).....	0	2
Total.....	80	45

retailer contracts<sup>1</sup> to buy all his dry groceries from the wholesaler in question, to pay all bills weekly, to call his store a Red and White store, to paint the exterior red and white, to rearrange the interior according to a standardized method, and to cooperate with the wholesaler and his supervisors in increasing goodwill for the organization. The wholesaler commonly promises, on the other hand, to sell all products to such members at reduced prices, to deliver twice a week, and to furnish experts and supervisors at no cost to the membership. At the same time, some wholesaler may encourage group advertising and furnish window cards, interior displays, and customer circulars. Each member displays a common sign in front of his store. At present, the wholesalers are refunded any annual net profits which accrue in the central office, on a basis of purchase. The wholesalers bear the brunt of the merchandise help offered to the dealers, with the usual exception of newspaper advertising. The retailers themselves make no cash investment or outlay for service rendered at the outset or later, except in individual cases.<sup>2</sup>

The Independent Grocers Alliance was organized in the fall of 1925 by J. Frank Grimes of Chicago. He has to date sold his service to a number of service wholesale grocers throughout the United States on an exclusive basis. The central office performs two functions: cooperative buying for the wholesalers and the creation of merchandising ideas for the retailer, all of which are passed on through the wholesaler. The wholesaler pays the central organization fee of \$10 per member per year, plus an installation fee of \$3,500 and up, according to the size of the territory.

The wholesaler, then, with the aid of a crew from headquarters, signs up as many of his retail customers as possible, all of whom agree to buy a definite percentage of his dry groceries from the

<sup>1</sup> For a contract used by one contract wholesaler, see Appendix E.

<sup>2</sup> In August, 1927, the following service wholesale grocers were members of the organization: C. A. Cron Co., Fitchburg, Mass.; Moffat Grocery Co., Flint, Mich.; Slocum & Berger Co., Minneapolis; Malone & Hyde, Memphis; H. J. Hughes, Omaha; Marr Wholesale Grocery Co., Denver; Wadum, Portland, Ore.; Malchut, Seattle; West Coast Grocery Co., Tacoma; the S. M. Flickinger Co., Buffalo, Elmira, and Syracuse; John Sloane Co., Toronto, Ont.; A. G. Guptey Co., Windsor, Ont. Other jobbing centers which have been added since that time are Sterling, Colo.; Omaha, Neb.; Salt Lake City, Utah; Aberdeen, Wash.; Erie, Pa.; Saskatoon, Sask.; Kitchener, Ont.; Moose Jaw, Sask.; Bellevue, Ont.; Winnipeg, Can.; and North Battleford, Sask.

particular wholesaler. The retailer agrees to follow the suggestions of the merchandising experts, to clean and paint his store inside and out, rearrange his stock, display an I. G. A. sign, sell at the prices given him, and pay the wholesaler \$3.50 per week for services rendered. A supervisor is sent around by the wholesaler from time to time to make a written report concerning all stipulated agreements. This man is prepared to help the retailer at all times.

In return for this, the wholesaler agrees to sell to the retailer a definite portion of his purchases in fast-moving items at practically purchased cost to the wholesaler. In one particular case, the retailer has to guarantee the purchase of \$500 worth of goods per month, irrespective of size, and the wholesaler offers fast-moving items at cost plus 3 per cent, up to 25 per cent of the total monthly purchases.

In addition to these arrangements, an advertising agency, Swenson Company, Chicago, acting in cooperation with the central office, furnishes each retailer three window stickers advertising three price leaders, each week; 250 copies of a four-page consumers' bulletin with the dealer's imprint, every other week; and a monthly educational bulletin for his own study, at no additional expense to the retailer.

Once a month, the jobbers send their representatives to Chicago, where they buy collectively. These meetings, which usually last for three days, are given over to a study of sales promotion, as well as the actual placing of orders.

One cooperative wholesale member, after 9 months' operation, had 250 retailers signed out of a total list of 8,000. His goal was 600, with average monthly purchases of \$1,000. As the organization grows, centralized buying and private brands will be given more attention.

It is the goal of the organization to have 100,000 retailers as members, buying all their wholesale needs from the exclusive I. G. A. wholesalers. The officers believe that if this buying power can be brought together, the wholesalers can operate on a cost of 3 per cent, earn a net profit of 5 per cent, and, at the same time, help the retailer greatly reduce his costs, increase his net profits, and supply the public at the lowest market prices.<sup>1</sup>

<sup>1</sup> In January, 1929, this organization claimed representation in 117 jobbing centers, which included LaCrosse, Wis., Houston, Tex., Rochester,

This method of operating has gained wide favor in the grocery field during the past 18 or 24 months. Other more local organizations are the Clover Farm Stores Company, Cleveland, Ohio;<sup>1</sup> Nation Wide Stores, Brockton, Mass.; the Home Owned Stores Company, Inc., Denver, Colo.; Colony Food Stores, Boston, Mass.;<sup>2</sup> and Rite-Way System, Detroit, Mich.

In the drug field, the Allied Independent Druggists is the only association known. Originally backed by 25 to 30 service wholesale druggists, the plan is now pushed actively by two. Wholesalers and retailers were buying stock in a central manufacturing and distributing organization with headquarters at New York City. Prices were to be maintained. All retail stockholders in the same city were to display a common sign and turn over their windows and merchandising and sale plans to the organization represented locally by the wholesaler. The retailer was to buy at least \$5,000 a year from him. The wholesaler was to spend  $1\frac{1}{2}$  per cent of sales for advertising. He was to sell at no price higher than enough to gross 20 per cent wholesale. The plan has not proved entirely successful, however. One wholesaler with 16,000 accounts on his books secured only 100 retail members. Some of his other customers refused to do any further business with him.

The recently consolidated organization of McKesson and Robbins, wholesale druggists, has developed an interesting plan of cooperation with certain selected retail customers. The agreement between McKesson and Robbins retailers and the parent house is as follows:

1. McKesson and Robbins agrees to allow the retailer to apply the discounts which he would ordinarily receive from any McKesson subsidiary to the purchase of "rights" at the rate of \$9 per "right," five "rights" being equivalent to one share of stock. This is not obligatory upon the retailer. It is optional as to whether he wishes to receive his discounts in the regular way, or take advantage of the purchase of "rights"—which should give him more profit. The discounts them-

---

N. Y., Charleston, W. Va., Dover, Ohio, Wheeling, W. Va., Xenia, Ohio, Evansville, Ind., Milwaukee, Wis., Superior, Wis., New Orleans, La., Birmingham, Ala., Marquette, Mich., Buffalo, N. Y., Poughkeepsie, N. Y., Lincoln, Neb., and Topeka, Kan. For further information, see Appendix D.

<sup>1</sup> For description, see *Chain Store Rev.*, p. 17, July, 1928.

<sup>2</sup> This organization is slightly different, since a service wholesale grocery, a local bakery, a local milk distributor, and a meat packer combined to establish the contracting group. Private brands are emphasized.

selves are fixed by the McKesson subsidiary in each particular market, to meet local conditions, and they range from 1 to 10 per cent, according to the class of item.

2. McKesson and Robbins agrees to make special arrangements to support retailers who are afflicted with unjust price competition, in order to stabilize conditions. This would be true, however, only in cases where the retailer's record of purchases warrants such help.

3. McKesson and Robbins agrees to furnish complete window trims and actually trim the windows once every 2 weeks, except in those territories where no window-display service is available, and, in the latter case, supply the window material and ask the retailer to trim it himself.

4. McKesson and Robbins agrees to furnish full-page newspaper advertisements in 41 papers every 2 weeks, throughout the United States. This advertising help is given absolutely without expense to the retailer. The total of this on an annual basis exceeds \$800,000.

5. McKesson and Robbins agrees to place in the field a completely trained staff of merchandising men who will work with the retailer in an effort to instill better merchandising practices throughout the entire retail trade.

6. McKesson and Robbins agrees to maintain soda-fountain service for the benefit of retailers without cost to them.

7. McKesson and Robbins agrees to supply a national magazine, carrying advertisements of national manufacturers, which magazine will be furnished to the retailer free. The advertisements in this magazine will not be in an effort to get or increase distribution of the products advertised, but the advertisements will be so prepared that they will tell the retailer how to sell the merchandise which he now has.

8. McKesson and Robbins agrees to issue periodically a magazine called *The Physicians' Times Magazine*, which will go to 200,000 doctors and dentists throughout the country, and which will feature those drug stores which carry the McKesson symbol.

9. McKesson and Robbins agrees to have a national broadcast (21 stations on the Columbia system) once a week following on and after Sept. 29, 1929. This McKesson hour will be absolutely in the interest of independent retail druggists. There are a number of other advantages which the retailer will also obtain from McKesson and Robbins without expense.

#### The retailer agrees:

1. To buy a definite percentage of wholesale drug supplies from a McKesson subsidiary.

2. To furnish one window for 52 weeks a year.

3. To display the McKesson symbol in his store.

4. To handle such merchandise as advertised under the McKesson plan.<sup>1</sup>

All of these different types of middlemen—the semicooperator, the contract wholesaler, and the mutual wholesaler—are attempting to make more secure the position of the old-line service wholesaler by cooperating more closely with the independent retailer. Some students of marketing group these organizations with the true cooperatives and call them “voluntary chains.” In doing so, they make the mistake of combining and considering as one business units which are organized for different purposes and which are operated for different motives.

<sup>1</sup> Courtesy H. V. Phillip, secretary, McKesson and Robbins, New York City.

## CHAPTER II

### HISTORY OF COOPERATIVE RETAIL BUYING ASSOCIATIONS

#### THE DRUG TRADE

The first cooperative buying effort among retail druggists known today resulted in the organization as a buying club of the New York Consolidated Drug Company in Manhattan, New York City, in 1887. This club, the membership of which was originally German, was incorporated in 1900 and has grown until its sales in 1927 amounted to approximately \$1,000,000. In 1888, and without knowledge of the first, the Philadelphia Wholesale Drug Company was organized as a limited partnership and is today the largest strictly cooperative drug house in the United States, with an average membership in 1927 of 1,600 and sales of approximately \$7,500,000.

The only two other associations known to have been organized prior to 1900 were also located in the East. The Washington (D. C.) Wholesale Drug Exchange was organized in 1898 as a buying club and was incorporated in 1902. In 1926, its sales were \$1,800,000. During the same year, the Calvert Drug Company, Baltimore, was organized as a buying club. Incorporated in 1901, it did a business in 1926 of about \$1,350,000. By 1910,<sup>1</sup> only three other present organizations are known to have been established: the Ellicott Drug Company (1902), in Buffalo, the Newark Drug Exchange (1908), and the Provi-

<sup>1</sup> The Nat. Wholesale Druggists Assoc. first officially recognized the cooperatives by mentioning them as buying clubs at their annual meeting in 1904, as recorded in the convention report (p. 171). Again, they were commented on in 1905 (p. 292). In 1906, they were reported to have reached their high watermark. The first serious discussion of "buying clubs" is to be found in the annals of 1908 (pp. 227-234). In 1910, the wholesale druggists report retailers to be leaving the cooperatives (p. 220) because they offer no service and do not have a full line. In 1914 (p. 162), the idea is "waning;" 1916, they "remain . . . same" (pp. 187-191); "many are disappearing" in 1918; admit a "number of new concerns" in 1920 (p. 119). In 1922, the wholesalers admit that the cooperatives are "holding their own" (p. 219).



dence Wholesale Drug Company (1909). In 1909, an association in Cleveland, organized in 1906, failed and was purchased by F. T. Roosa.<sup>1</sup>

**National Cooperative Drug Company.**—In March, 1912, Merrett Stores, Inc., was organized in Minneapolis. In 1914, it changed its name to the National Cooperative Drug Company, combining, under the leadership of the late "Bud" Thuma, with the Cincinnati Economy Drug Company and the Philadelphia Wholesale Drug Company. This scheme was a failure, and each of the three houses again operated as a separate organization. Not until 1918, however, did the Minneapolis association take the name of the Northwestern Drug Company.

In 1915, the St. Louis Wholesale Drug Company was organized. In 1919, the New Jersey Wholesale Drug Company was organized at Newark; while, in 1920, the Los Angeles Wholesale Drug Company was established. From that time, there was little activity in unorganized districts until 1927. Since then, partially because of the publicity given cooperative retail buying associations by *The Pharmaceutical Era*, several have been organized or are now under way, particularly at Louisville, Ky., Utica and Brooklyn N. Y.

**Federal Wholesale Druggists Association.**—In 1915, the Federal Wholesale Druggists Association was organized to bring together cooperative retail buying associations. This association meets annually to give the managers and members an opportunity to exchange ideas and operating figures and to lay plans for cooperative effort. With one minor exception,<sup>2</sup> the association does no buying as such, although there is some talk of combining the buying power of the members. The present membership list includes mutuals as well as cooperatives, in addition to a service wholesale house, which sells buying privileges.<sup>3</sup>

<sup>1</sup> His six branches were purchased or organized as mutuals: Columbus, Ohio, in 1911; Chicago in 1912; Detroit 1916; Kansas City 1920; Pittsburgh in 1926; and Indianapolis in 1927. *Pharm. Era*, extra ed., p. 5, October, 1927.

<sup>2</sup> It does purchase and trade-mark a line of tooth brushes.

<sup>3</sup> The present membership of the Federal Wholesale Druggists Assoc. includes Calvert Drug Co., Baltimore; Drugs, Ltd., Winnipeg, Can.; Drug Trading Co., Toronto, Can.; Ellicott Drug Co., Buffalo; Los Angeles Drug Co.; New Jersey Wholesale Drug Co., Newark; Northwestern Drug Co., Minneapolis; Philadelphia Wholesale Drug Co.; Providence Wholesale

## THE GROCERY TRADE

**Frankford Grocery Company.**—In the grocery trade, the Frankford Grocery Company of Philadelphia, organized in 1888, was the first known cooperative effort. Shortly afterward, a group of men in this association withdrew and formed the Girard Wholesale Grocery Company of the same city, which went into the hands of receivers in 1926. The Frankford Company is today the largest cooperative in its field, having done, in 1927, a business of about \$6,000,000. This organization was incorporated in 1906. In 1898, the Cincinnati Wholesale Grocery Company was organized. The following year, the Retail Grocers Exchange was formed in Wilmington, Del. Up to 1910, only 13 such associations are now known to have been in existence. The figures made available through the courtesy of H. M. Thomas, publisher of the *Thomas' Register of the Grocery and Kindred Trades*, are not limited to true cooperatives.

**Failure Rate of Grocery Cooperatives.**—Table I indicates that between 1908 and 1927, inclusive, 168 organizations classified by *Thomas'* as cooperatives were organized, a figure which, added to the 12 reported prior to 1908, the first year for which records are today available, equals 180. Of this number, 84 are reported to have gone out of business during the same period. Although this figure is much smaller than commonly believed by many, their conclusion is probably based upon observing such organizations as the Creasey Corporation, Louisville, Ky., which between 1912 and 1928 opened 80 branches and closed 45 of them, or the American Grocers Society, Inc., which between 1920 and 1923 opened and closed 15 branches.

For the associations included in Table I, however, there is a ratio of new associations to closed ones of 2 : 1. Table I shows that the net increase was considerable prior to 1921 but has been

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Drug Co.; Rochester Drug Co.; St. Louis Wholesale Drug Co.; San Francisco Drug Co.; Union Drug Co., Boston; Washington Wholesale Drug Exchange; and West Coast Wholesale Drug Co., Seattle. It also includes the Mutual Drug Co. of Cleveland with its six branches; the Cincinnati Economy Drug Co. and its two branches; and J. K. Teeporten, Ltd., Vancouver, Can., all of which were originally cooperatives but are now operated as private businesses. Its membership also includes Snowden-Mize Drug Co., Atchison, Kan., service wholesalers who sell buying privileges. Other pure cooperatives known to exist in the drug trade at the present are the Consolidated Drug Co. of New York City; Pacific Wholesale Drug Co., Portland, Ore.; and Newark Drug Exchange, Newark, N. J.

negligible since 1922. This failure rate is considerably higher than that for cooperative associations in the drug trade.

TABLE I.—THE NUMBER OF COOPERATIVE RETAIL BUYING ASSOCIATIONS IN THE GROCERY TRADE REPORTED TO THE THOMAS PUBLISHING COMPANY, NEW YORK CITY<sup>1</sup>

Year	Number reported in previous year	Number of new reports received during year	Number of associations reported closed during year	Total number of associations reported operating
1908	12	+1	—0	=13
1909	13	0	0	13
1910	13	0	0	13
1911	13	5	0	18
1912	18	4	0	22
1913	22	0	0	22
1914	22	6	0	28
1915	28	9	0	37
1916	37	4	0	41
1917	41	15	2	54
1918	54	12	3	63
1919	63	25	4	84
1920	84	16	10	90
1921	90	22	14	98
1922	98	7	20	85
1923	85	5	4	86
1924	86	12	5	93
1925	93	9	9	93
1926	93	7	7	93
1927	93	9	6	96

<sup>1</sup> As reported by A. H. Komiat, editor *Thomas' Register of the Grocery and Kindred Trades*. These figures do not include information on the Creasey Corp., Louisville, Ky.; its various subsidiaries, which now operate 37 branches from coast to coast; and the Amer. Grocers Soc., Inc., Newark, which failed in 1925 after having opened and closed 15 branches located in Massachusetts, New York, New Jersey, Pennsylvania, Virginia, West Virginia, Maryland, Georgia, Louisiana, and Ohio. Both organizations were privately owned and operated, selling buying privileges to retailers. The names of 16 others were withdrawn because they were known to be organized on a similar basis.

**National Retailer-owned Wholesale Grocers Association.**—In February, 1928, the National Retailer-owned Wholesale Grocers Association was formed at Chicago. It started with 42 individual cooperative retail buying associations, some of the strongest

in the country, and 15,000 members. The purpose of the organization, according to a report of the *Journal of Commerce*,<sup>1</sup> is "the betterment of the individual retail groceryman and the general improvement of trade conditions." Collective buying is contemplated.

### THE HARDWARE TRADE

In 1910, the American Hardware & Supply Co. was organized and incorporated as a wholesale association. It is still in operation. In 1917, the National Hardware Stores, Inc., with offices in New York City, solicited subscribers for participating stock in their organization. The scheme, however, was a private enterprise and failed to materialize.

**Associated Hardware Distributors.**—In 1919, a Mr. Sweetzer and two associates made a more serious attempt at establishing a chain of cooperative hardware houses over the United States. They formed Associated Hardware Distributors, with the purpose of (1) organizing retailers in each distributing center into cooperative associations; (2) establishing a central organization which would operate as a brokerage office; (3) helping retail members to improve their merchandising methods. Various methods were used to promote the enterprise, but, in 1922, all attempts to establish a central organization were given up. At this time, four cooperative houses were in operation, two organized and established and two purchased from service jobbers. These four were located in New York City, Atlanta, Boston, and Minneapolis. Since 1922, the one in New York City has failed on account of poor management. The Atlanta and Boston houses have been sold out. In the latter case, the Atlantic Coast Hardware Company was sold to the Winchester-Simmons Company. The G. E. Hall Hardware Company is the only one of this group still in operation. This strong association is one of the most carefully organized and operated observed during this study. It is reported that there is an association in Kansas City called the Anchor Hardware Stores.<sup>2</sup>

### THE JEWELRY TRADE

In the jewelry trade, The United Jewelers, Inc. (Hallmark), is presumed to be a cooperative association. One authority

<sup>1</sup> Jan. 26, 1928.

<sup>2</sup> MASSEY, G. F., editor of *Implement and Hardware Trade Jour.*

reports that this organization is little more than a regularly organized and operating jobbing house.<sup>1</sup> The National Jewelers Supply Company, located in Wisconsin, was organized and later failed as a cooperative enterprise.

#### OTHER RETAIL TRADES

Through the cooperation of trade-paper editors, inquiries were made into the other trades, such as automotive, confectionery, electrical appliances, farm implements, meat, office equipment, paint, paper, pianos, plumbing, radios, shoes, sporting goods, and tires. The names of a few organizations were uncovered, but, when traced, each one proved to be privately promoted and managed.

<sup>1</sup> ENGELHARD, G. H., of *National Jeweler*.

## CHAPTER III

### CAUSES AND PRESENT STRENGTH

#### CAUSES

The primary cause of cooperative retail buying associations has been increased competition, resulting in both predatory and economic price cutting. Once established, associations have tended to perpetuate themselves.

**Overproduction.**—Following the Civil War, an overproduction of factory products gave an impetus to large-scale production. Because of better transportation facilities, manufacturers were able to seek wider markets for their merchandise, with the result that several erstwhile local manufacturers competed in the same territorial markets for the trade which was originally supplied by one. Thus, increased competition among manufacturers resulted in increased competition among wholesalers and retailers. Cooperative action among retailers, however, arose in the late eighties and continued to grow until the business crisis of 1920, since which time the number of cooperative associations has remained practically stationary.

**Predatory Price Cutting.**—There are two distinct types of price cutting. One has been aptly called “predatory price cutting” and is accomplished by arbitrarily cutting prices on well-known, nationally priced lines in order to attract buyers who are well aware of the savings which can be made. Losses or decreased net profits are then made up on non-branded or other unknown articles.<sup>1</sup>

<sup>1</sup> This method was in use at an early period and increased with the practice of using trade-marks, uniform packages and cartons, and national advertising. Although trade-marks, the most common means of identification, were not widely used until after 1905, approximately 1,000 were granted by the U. S. Patent Office in 1875. Uniform packages and cartons were early used, particularly for patent medicines and some grocery specialties. Later came the growth of national advertising. Magazine advertising, the most common type of national advertising, began during the period of 1860-1870 and developed gradually until about 1890, when it increased at a more rapid rate.

Such practice was common as early as 1879, when Thomas B. Lord, president of the National Wholesale Druggists Association, said, in his presidential address:

Is it right and just upon an even market to offer and sell even a few articles at a price less than, or so near to, the purchase price as to fail to pay their proportionate part of the actual expense of conducting business? Whoever pursues such a course must make up the deficiency of profit on the so-called "leaders" by charging a large profit on other goods about which the purchaser is not so familiar, or he must suffer manifest injustice.<sup>1</sup>

Various methods were attempted to curb the predatory price cutter in the drug trade, culminating in the "tripartite plan,"<sup>2</sup> which was dissolved in 1907 as a result of a decree of consent. The problem has been a current one to the present time and has not been confined to the drug trade.

**Economic Price Cutting.**—The second type of price cutting was made possible at that time by larger-scale buying or newer types of efficient operation of distributors. Department stores in the United States probably date back to the organization of the Jordan Marsh Company in Boston, in 1861. Department stores developed first and originally operated on a price basis. They expanded rapidly from 1880 to 1900. J. H. Marshall, who was president of the Minneapolis Retail Drug Association in 1893 to 1894, states that price cutting was at its worst at that period, although in its early stages. In Minneapolis, cut prices

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This practice of identifying the output of each manufacturer helped to standardize that particular line. Consumers learned through experience that they could usually depend upon subsequent orders being of the same quality and grade as the original purchase. Right or wrong, this changed the buying habits of consumers, shifting the responsibility for careful selection from the shoulders of the buyer to those of the seller. While such action greatly increased advertising costs, it lessened the relative importance of personal salesmanship and made possible the sale of goods by name rather than specification. To the extent to which a product was lifted above direct competition, it required less and less personal selling effort upon the part of the distributors. Thus, the time was ripe for a new method of distribution wherein personal selling was reduced to a minimum.

<sup>1</sup> A History of the National Wholesale Druggists Association (pp. 29, 30).

<sup>2</sup> The Nat. Wholesale Druggists Assoc. issued white lists of wholesalers who would agree to maintain certain prices. The manufacturers then gave a special rebate to wholesalers on this list. This method, which was urged by this association from 1899 to 1907, included the retailers in some areas.

in the drug field were initiated by the department stores, which used their drug departments to attract customers. This method is still practiced. It is reported that one of the larger department stores of New York City continually loses thousands of dollars annually on its drug department, and the manager of a cooperative drug association in a city with a population of about 500,000 says that his strongest competitor is a local department store.<sup>1</sup>

**Mail-order Houses.**—Following the department store came the mail-order house. Mail-order houses started with the formation of Montgomery, Ward & Company in 1872 and developed slowly until after 1900. Rising prices increased sales, which were accelerated by the establishment of the parcel post in 1913, until 1920, when the depression affected this type of distribution greatly. The mail-order house has not affected the individual druggist or grocer except in the smaller communities, and particularly those located in the Middle West. Mr. Hall, the manager of the G. E. Hall Hardware Company, Minneapolis, Minn., organized in 1913, says, however, that the effectiveness of the Chicago mail-order houses was the cause for his cooperative organization.

**Chain Stores.**—Chain stores, on the other hand, did not begin their rapid growth until after 1915.<sup>2</sup> Although the Great Atlantic and Pacific Tea Company was organized in 1858, this newer method of distribution was the last to develop. Just as the growth prior to 1910 was slow, its development after 1915 has been very rapid.<sup>3</sup> The recent growth of the chain stores in these

<sup>1</sup> In the *Boston Herald*, June 1, 1928, the Shepard Stores advertised their "Special June Prices on Toiletries and Drugs." Some of the prices were: \$2.75 Houbigant toilet water, \$1.69; 1 dozen Lux, 89 cents; 1 dozen Palmolive, 84 cents; \$2.40 Mary Garden perfume, 1 ounce, 79 cents.

<sup>2</sup> Vaile shows that 50 per cent of the chain-store companies listed in Poor's Manual in 1925 were organized after 1915.

Organized	Per cent	
Prior to 1890 .....	5	
1890 to 1900 .....	6	
1900 to 1905 .....	12	
1906 to 1910 .....	11	
1911 to 1915 .....	16	50
1916 to 1920 .....	23	
1921 to 1925 .....	27	50

VAILE, "Economics of Advertising," p. 86.

<sup>3</sup> The *Druggist Circ.* for September, 1921, reported on 14 chains in the drug field, at that time operating 501 stores. In 1914, these 14 chains



two trades is best expressed in the figures issued by the Federal Reserve Board. They show that while the wholesale trades, generally, have barely been holding their own, and while the

TABLE II.—INDICES OF SALES<sup>1</sup>

Corrected for Seasonal Variation (1923-1925 Average = 100) by Federal Reserve Board

Years	Wholesale trades	Drug trade		Grocery trade		Department stores
		Wholesale	Chains	Wholesale	Chains	
1919.....	110	91	64	118	45	78
1920.....	114	95	78	126	66	94
1921.....	87	86	79	93	59	87
1922.....	89	87	82	93	69	88
1923.....	101	97	93	100	85	98
1924.....	98	99	98	101	97	99
1925.....	102	104	109	99	118	103
1926.....	101	107	126	98	143	106
1927.....	97	108	143	94	174	107
1928.....	96	113	166	95	208	108
Jan. 1929.....	101	133	178	99	217	102
Feb. 1929.....	96	114	183	95	240	100
Mar. 1929.....	97	108	197	91	231	99
Apr. 1929.....	100	116	187	96	224	99
May 1929.....	102	118	192	99	226	99
June 1929.....	96	112	208	93	232	98
July 1929.....	101	117	201	98	231	99
Aug. 1929.....	103	124	215	100	245	100
Sept. 1929.....	99	116	214	93	240	99

<sup>1</sup> Federal Reserve *Bull.*

department-store sales have increased only slightly more than the population as a whole has increased, the chain stores have been gaining ground rapidly.

operated 254 stores. Cherington says: "It is estimated that there are (September, 1927) in the United States over 800 chain-store grocery organizations operating 57,000 stores." (This figure equals about 20 per cent of all the retail grocery stores.) He compares these figures with those of 1914, "when 500 grocery chains had a total of 8,000 stores and were estimated to do about 5 per cent of the retail grocery business of the country. J. Walter Thompson *News Bull.*, pp. 1-11, September, 1927.

Additional statistical information can be found in the printed address of C. W. Dunn, given at the Harvard Graduate School of Business Administration, May 17, 18, 1928: *The Grocery and Drug Chain-store Business.*

In the drug trade, the index for chains has increased from 64, in 1919, to 214, for September, 1929, while the wholesale index moved up from 91 to 116. The change has been sharper in the grocery trade, where the chain index advanced from 45 to 240, while the wholesale figure declined from 118 to 93. Since the figures for chains do not reflect the increased sales of new systems entering the field, and since those for wholesalers do not include that proportion of the decline represented by service wholesalers who go out of business, the contrasts are probably even greater than the indicated figures. Thus, the actual or imagined competition of chains stores has been the greatest single direct cause for the formation of newer cooperatives in both the drug and grocery trades.<sup>1</sup>

Price cutters, however, whether they were able to make up their losses on unadvertised goods and thus continue in business, whether they failed to do so, whether they bought advantageously in large quantities, or whether they actually reduced distribution expenses, affected the business of their more cautious competitors, who naturally looked for competitive weapons, one of which appeared to be cooperative buying. These changing methods of distribution either temporarily or permanently introduced the consuming public to lower prices or more attractive methods of purchasing, thus forcing the independent retailers to consider cooperative effort in self-defense.

**Association Perpetuation.**—In addition to these reasons for the organization and continuance of cooperative retail buying associations, there is one important internal reason why such an organization tends to perpetuate itself. This condition is indicated by the need of changing corporation charters and by the fact that many manufacturing companies produce unrelated lines.<sup>2</sup> Such a condition is even more true of an association. Any independent cooperative effort offers work to one or more

<sup>1</sup> Lee Williamson, until recently manager of the Calvert Drug Co. and secretary of the Federal Wholesale Druggists Assoc. says: "Later, the so-called 'chain-store menace' became an added inducement for retailers to join a mutual." Mr. Westfall, manager of the Associated Grocers, Inc., says that the advent of chain stores into St. Louis was the immediate cause for the organization of his association.

<sup>2</sup> For example, Browne & Sharpe of Providence, manufactures edge tools and sewing machines; Brown Brothers, Portland, Me., manufactures wood pulp and chemicals and operates a truck farm in Florida; General Motors manufactures motor cars and trucks, automobile parts, farm lighting plants, and electric refrigerators.

people whose weekly or monthly income depends upon the continuance of that cooperative effort. Irrespective of the original cause or of outside pressure from continuing causes, a cooperative association will tend to perpetuate itself even to the point where, circumstances permitting, the management may continue to operate it as a private independent business enterprise.

### PRESENT STRENGTH

**The Drug Trade.**—In so far as it is known, there were in operation Jan. 1, 1927, 16 strictly cooperative drug houses in the United States, the youngest of which was organized in 1920.<sup>1</sup> Of this number, 10 were capitalized for \$490,000 preferred stock and \$1,955,000 common. Sales figures for 1926 for 9 of them equal \$17,075,000, or, roughly, an average of about \$1,900,000.<sup>2</sup> Although these figures include the largest independent cooperatives, if this figure is taken as typical, the volume for all 16 would be about \$30,000,000.<sup>3</sup> This number, 16, compares with 234, the present membership of the National Wholesale Druggists Association.<sup>4</sup>

The 11 associations reporting had 4,269 members, an average of 388 for each association. For 16 associations, then, the total estimated membership would be about 6,200,<sup>5</sup> or 13 per cent of the retail druggists.<sup>6</sup>

<sup>1</sup> Such a list does not include at least three organizations promoted but not in operation during the year 1927.

<sup>2</sup> The typical 1924 sales figure for 129 service wholesale druggists was \$1,250,000. Operating Expenses in the Wholesale Drug Business in 1924, Harvard Univ. Bur. Business Res., *Bull.* 50.

<sup>3</sup> A common figure quoted among cooperators for this same period is \$60,000,000, which includes the sales of the Mutual Drug Co. of Cleveland and the Cincinnati Economy Drug Co., whose sales in 1926 equaled about \$20,000,000, making the estimated total comparable to the above figure—about \$50,000,000.

<sup>4</sup> *Ann. Convention Rep.*, 1927. The association gives as active wholesale membership a total of 260 but includes all branches as duplicates. In "Population and Its Distribution," 4th ed., p. 312, the total number of wholesale drug houses is given as 1,626.

<sup>5</sup> A common figure used by cooperators is 15,000, which includes about 5,500 members for the Mutual Drug Co. of Cleveland and the Cincinnati Economy Drug Co.

<sup>6</sup> This figure is obtained by subtracting 2,173, the number of chain stores, from the total retail drug stores, 49,492, and dividing the resulting figure into 6,200:

$$\frac{6,200}{49,492 - 2,173} = 13 \text{ per cent.}$$

Out of 49,492 retail stores,<sup>1</sup> there are 2,173 chain stores,<sup>2</sup> leaving a remainder of 47,319 independent drug stores. According to the figure submitted as a result of the recent census of distribution, the average drug store has annual sales of \$35,500.<sup>3</sup> The most authentic figure representing the total percentage of purchases by retail druggists from wholesale houses is 60.<sup>4</sup> The average gross margin for this same year was 34 per cent.<sup>5</sup> By use of the formula given below,<sup>6</sup> it is estimated that the cooperative retail buying associations do 4.5 per cent of the total wholesale drug business reaching independent stores.

**The Grocery Trade.**—The total number of cooperative retail buying associations in the grocery trade Jan. 1, 1927, is not so easily obtainable. According to the files of the Thomas Publishing Company, there were at this time 96 such associations reported in operation.<sup>7</sup> In reply to a questionnaire sent to each of these, replies from 34 indicated that only 29 were organ-

<sup>1</sup> "Population and Its Distribution," 4th ed., p. 311.

<sup>2</sup> Marketing Your Product through Retail Drug Stores, *Druggists Circ.*, 1927.

<sup>3</sup> Retail and Wholesale Trade, Chamber of Commerce, of the United States (p. 20). While these figures may not be thoroughly typical, most of the cooperatives are located in cities of about the size of these.

<sup>4</sup> Operating Expenses in Retail Drug Stores in 1919, Harvard Univ. Bur. of Business Res., *Bull.* 22, p. 12. At this time, purchases by departments were:

	Per cent
Prescriptions.....	10
Proprietary medicines.....	22
Toilet articles.....	10
Rubber goods.....	3
Candy.....	5
Cigars and tobacco.....	8
Soda.....	14
Other goods.....	28

<sup>5</sup> Operating Expenses in Retail Drug Stores in 1919, Harvard Univ. Bur. of Business Res., *Bull.* 22, p. 12. The most accurate study of operating expenses in the retail drug trade since that time is that of Prof. H. J. Ostland for 147 retailers in Iowa, Minnesota, North and South Dakota. The average gross margin of these was 33 per cent. *Northwestern Druggist*, p. 18, September, 1926.

$$\frac{30,000,000}{\left[ \left( 35,500 \times \frac{60}{100} \right) \times (49,492 - 2,173) \right] - \frac{34}{100}} = 4.5 \text{ per cent.}$$

<sup>7</sup> For figures showing the rise and fall of cooperative associations in the grocery trade since 1908, see Appendix F.

ized in such a manner that they could be included in this study. The proportion of privately operated companies which did not reply is probably greater than these two figures would indicate. Offsetting this discrepancy, to an extent, are those associations which have not been listed in the *Thomas' Register* or have not been reported as cooperative.<sup>1</sup> Although this estimate is no more than an intelligent guess, there are probably not more than 85 grocery cooperatives operating today.

The total sales for 1926 for 22 grocery cooperatives was \$29,514,000, or \$1,342,000 each. This figure is less than the average figure for associations in the drug trade but larger than the typical figure of \$1,000,000 for service wholesalers in the same line.<sup>2</sup> Although most of the larger associations are included among these 22, assuming that there are 85, all averaging this same figure, grocery cooperatives did an annual business in 1926 of about \$114,000,000.<sup>3</sup> Exactly 25 of these grocery associations report a combined membership of 7,399, an average of 296 each. This figure multiplied by 85 indicates that the total number of retail grocers who are members of associations approximates 25,000.

Out of 273,734 retail grocery stores and delicatessen shops<sup>4</sup> it is estimated that there are 57,000 chain stores.<sup>5</sup> The average sales per store in 1926 in 11 selected urban centers was \$23,400.<sup>6</sup> According to the best estimates, about 55 per cent of the stock of the average retail grocer is purchased from a wholesale house.<sup>7</sup>

<sup>1</sup> For 1926, *Thomas' Register* lists 6,372 wholesale grocers, of which total the 96 associations are a part. In "Population and Its Distributions," 4th ed. (p. 313), the total number of grocery wholesalers for 1925 is given as 8,167. Making allowances for semicooperative organizations included among the 96 and the additional 1,795 houses listed in "Population and Its Distribution," 85 seems a reasonable figure.

<sup>2</sup> Typical figure for 219 wholesale grocery firms. Operating Expenses in the Wholesale Grocery Business in 1923, Harvard Univ. Bur. of Business Res., *Bull.* 40.

<sup>3</sup> The only other estimate available was made by Mr. Westfall, manager of Associated Grocers, Inc., St. Louis, Mo., who estimated that the grocery cooperatives of New York did \$30,000,000 worth of business in 1926.

<sup>4</sup> "Population and Its Distribution," 4th ed., p. 313.

<sup>5</sup> CHERINGTON, J. Walter Thompson *News Bull.*, p. 1, September, 1927.

<sup>6</sup> Retail and Wholesale Trade, p. 20, Chamber of Commerce of the United States.

<sup>7</sup> Operating Expenses in Retail Grocers Stores in 1924, Harvard Univ. Bur. Business Res., *Bull.* 52; *Bull.* 35 and 41 suggest figures ranging from less than 50 to 65 per cent.

The average gross margin for 1924 was 19.8 per cent.<sup>1</sup> By using the formula given below,<sup>2</sup> it can be roughly estimated that the cooperative retail buying associations in the grocery trade do about 5.0 per cent of the total wholesale business reaching independent stores. The percentage of cooperative grocers to total retailers is approximately 12 per cent.<sup>3</sup>

In other trades, cooperative retail buying associations are much less common. In the hardware trade, two successful associations are known to operate;<sup>4</sup> in the jewelry trade there may be one.<sup>5</sup> In others, however, such as automotive, confectionery, electrical, implement, meat, office equipment, paint, paper, plumbing, shoe, sporting goods, and tires, no cooperative retail buying association was found to be in operation.<sup>6</sup>

### COMPETITIVE CONDITIONS

It is estimated that in the drug trade, in 1926, independent stores did slightly less than 75 per cent of the volume of retail business, while the chain stores did 11 per cent, and department and general stores 8 per cent, more.<sup>7</sup> With direct sale eliminated, the wholesale trade itself can be broken down into three groups: the service wholesaler; cooperative retail buying associations, to which can be added mutuals; newer wholesalers, such as the short-line jobber, desk wholesaler, wagon peddler, and others. It is estimated that the service wholesaler sold, in 1926, about \$450,000,000; cooperatives and mutuals, \$50,000,000; and the newer types, slightly more than \$100,000,000.<sup>8</sup>

<sup>1</sup> *Ibid.*, p. 22.

$$\frac{114,000,000}{\left( \frac{55}{100} \right) \times (273,734 - 57,000)} \left[ - \frac{1\%}{1,000} \right] = 5.1 \text{ per cent.}$$

<sup>3</sup> CHERINGTON, J. Walter Thompson *News Bull.*, September, 1927. This figure is obtained by subtracting from the total retail grocery stores, 273,734 ("Population and Its Distribution," 4th ed., p. 312), the figure 57,000, as the number of chain stores, and dividing the resulting figure into 25,000:

$$\frac{25,000}{273,734 - 57,000} = 12 \text{ per cent.}$$

<sup>4</sup> For an account of the historical development of associations in the hardware trade, see Appendix E (Par. 3).

<sup>5</sup> See Appendix E (Par. 4).

<sup>6</sup> For the extent of the investigation and the information secured, see Appendix E (Par. 5).

<sup>7</sup> See Appendix G.

<sup>8</sup> See Appendix G.

**The Grocery Trade.**—In the grocery field, it is estimated that in 1926 the independent stores did slightly more than 50 per cent of the total business at retail. Chain stores handled an estimated volume of 38 per cent.<sup>1</sup> The wholesale grocery trade can be divided into four groups: "service" wholesalers, whose activities can be further divided into service, cash and carry, and contract; cooperative retail buying associations; independent cash-and-carry wholesale houses; newer types, such as desk jobbers, wagon peddlers, and others. The total wholesale trade for the year 1926 is estimated to have equaled about \$2,186,000,000; of this sum \$114,000,000 was done by cooperatives.<sup>1</sup> Thus, slightly more than \$2,000,000,000 was left to be divided among the other distributors.

<sup>1</sup>See Appendix G.

# CHAPTER IV

## COMPARATIVE COSTS OF DOING BUSINESS

### THE DRUG TRADE

There are few reliable figures for the cost of doing business as a cooperative retail buying association comparable to those collected by the Harvard Bureau of Business Research for service wholesalers in both the drug and grocery trades. In the drug trade, however, total expense figures are available for cooperative associations which may be compared with similar figures for 129 service drug wholesalers.

	Service wholesale druggists	Cooperative association druggists
	1924, per cent	1926, per cent
Average total expense.....	(129) 15.8*	(9) 6.9
Total expense of most efficient firm..	(1) 9.7†	(1) 5.9

\* Operating Expenses in the Wholesale Drug Business in 1924, Harvard Univ. Bur. of Business Res., *Bull.* 50.

† The most efficient firm was that one which reported the lowest operating expense to the Harvard Bur. of Business Res. for the year 1924. Only the firms which performed all the services of a regular service wholesaler were considered.

With these figures as a basis, the average cooperative retail buying associations in the drug field appears to effect a saving of 8.9 per cent over the average service drug wholesaler.<sup>1</sup> Further, the average association appears to make a saving of 2.8

#### <sup>1</sup>PERCENTAGE OF EARNINGS, CHECKS, AND STOCK DIVIDENDS FOR ONE RETAIL DRUG COOPERATIVE ASSOCIATION FOR NINE YEARS

1918..	6.0	1923.....	7.1
1919..	6.4	1924.....	
1920..	9.6	1925.....	7.0
1921..	7.5	1926.....	6.9
1922..	7.4		



per cent over the most efficient service wholesaler. The most efficient cooperative makes a net saving of 3.8 per cent over the most efficient service wholesaler.<sup>1</sup>

If all service wholesalers were as efficient as the most efficient one—a condition theoretically possible—the most efficient association would have an advantage of only 4 per cent. While it is true that the drug association distributes at a saving of slightly more than 9 per cent, roughly 5 per cent of this saving is due to the inefficient operation of wholesale druggists and 4 per cent to the apparent effectiveness of the cooperative method.

Although these figures can be made somewhat more comparable, as has been done in Table III, the above differential, in general, appears to hold true.

TABLE III.—TOTAL EXPENSE PERCENTAGES ACCORDING TO SALES VOLUME

	Service wholesale druggists	Most economical service wholesaler in each group	Co- operative retail buying association druggists	Most economical cooperative retail buying association in each group
	1924	1924	1926	1926
Volume of sales less than:				
\$1,000,000.....	(59) 16.3	(1) 10.8*	(3) 7.4	(1) 6.8
\$1,000,000 to \$1,- 999,999.....	(38) 15.7	(1) 9.7*	(4) 6.5	(1) 5.9
\$2,000,000 and over.	(32) 15.1	(1) 11.2*	(2) 8.0	(1) 7.2

\* Supplied by Harvard Bur. of Business Res.

Obviously, those figures are not entirely comparable. In the first place, they are not for the same year. In the second place, the number of drug cooperatives is limited, and while the percentage reporting to the total number in operation, 16,<sup>2</sup> is prob-

<sup>1</sup> Too much emphasis should not be placed on the most efficient firm in either group without more information concerning the characteristics of the particular organization.

<sup>2</sup> See p. 23.

ably as high as the percentage for service wholesalers, the total is too small to guarantee a typical average.

In the third place, since the percentages are based on the selling price, and since the selling price for cooperatives is less on the same articles than that for service wholesalers, the same percentage of cost for both would mean a smaller dollar-and-cents cost for the cooperative. In the fourth place, the services rendered by the service wholesaler and the cooperatives are not identical, and for that reason the expense figures are not entirely comparable. Finally, the services which the associations themselves render, vary from organization to organization.

This final difficulty has been overcome to the extent that such a small series will permit further comparisons. Not including the total expense figures for four associations, two of which include dividends upon preferred stocks and two more of which include association advertising, the average for the remaining nine is 6.9 per cent. This and the above figures include all buying, warehousing, and delivery expense, other overhead including selling, depreciation, and earnings set aside for emergencies. None of the figures includes merchandise dividends, dividends upon common stock, or interest on investment. In the case of the proprietorship account, there can be little confusion here as compared with the accounting problems found in comparing expenses for service wholesalers. All salaries and income of the managers show as expense or as dividends upon common or preferred stock. In dividends, these managers receive exactly the same prorated share as any other stockholder.

### **THE GROCERY TRADE**

The average total expense figure for 501 service grocery wholesalers, the total expense of the most efficient one, and the average total expense figure for seven cooperative retail buying associations in the grocery field, together with the most efficient one are as follows:

	Service wholesale grocery	Cooperative association grocery
	1924, per cent	1926, per cent
Average total expense.....	(501) 10.6*	(7) 6.11†
Total expense of most efficient firm.....	(1) 7.1‡	(1) 3.75

\* Operating Expenses in the Wholesale Grocery Business in 1923, Harvard Univ. Bur. of Business Res., *Bull.* 40.

† These seven associations extend delivery, the cost of which is included. Six others, with an average total expense of 3.45 per cent, deliver but at the direct expense of their memberships. Eight others, with an average total expense of 3.57 per cent, do not deliver. The range for those who deliver and absorb the cost is 3.75 to 10.01 per cent; for those who deliver and charge customers direct, 2.77 to 4.5 per cent; for those who do not deliver, 2.3 to 5.5 per cent.

‡ Supplied by Harvard Bur. of Business Res.

With these figures as a basis, the average cooperative retail buying association in the grocery field extending "free" delivery appears to effect a saving of 4.5 per cent over the average service grocery wholesaler. Further, the average association appears to make a saving of 1 per cent over the most efficient service wholesaler. The most efficient cooperative realizes a net saving of 3.3 per cent over the most efficient service wholesaler.

There is a difference of 3.4 per cent between the two most efficient associations in this trade. These comparisons indicate (1) that there is greater efficiency in the rank and file of the service wholesale grocery houses with a range of only 3.5 per cent between the average and the most efficient and (2) that the cooperative associations in this trade effect smaller economies than do those in the drug trade.

As in the case of the drug trade, further comparison fails to show any major differences.

The same difficulties experienced in comparing expense figures in the drug trade are found in the grocery trade. The service rendered by service wholesalers and cooperatives in the grocery trade and among cooperatives themselves vary even more greatly. One cooperative extends absolutely no credit, six do not include their delivery expense, if any, as a part of their total

TABLE IV.—TOTAL EXPENSE PERCENTAGES ACCORDING TO SALES VOLUME

	Service wholesale groceries	Most economical service wholesaler in each group	Co- operative retail buying association groceries	Most economical cooperative retail buying association in each group
	1923	1923	1926	1926
Volume of sales less than:				
\$500,000.....	(129) 10.6	(1) 8.37*	(3) 8.1	(1) 6.25
\$500,000 to \$999,000	(173) 10.6	(1) 7.12*	(1) 5.75	(1) 5.75
\$1,000,000 to \$1,- 999,000.....	(122) 10.3	(1) 7.62*	(3) 4.67	(1) 3.75
\$2,000,000 and over.	(77) 10.8	(1) 10.8*		

\* Supplied by Harvard Bur. of Business Res.

operating expenses, and eight others do not deliver at all.<sup>1</sup> Four include dividends upon preferred stocks as an expense, while two other groups of four each include dividends upon common stock and merchandise dividends as part of expense.<sup>1</sup> Only seven definitely set aside sums each year for emergencies, not including depreciations, while about half include association advertising as an expense of operation.<sup>1</sup>

In an attempt to check these figures, the selling price quoted on a list of standard trade-marked merchandise by a well-established cooperative association and a service wholesaler selling in the same territory was secured. Although the saving to the retailer in this instance is 7 per cent, it must be remembered that the list does not include staples, such as sugar and potatoes, the low margin and volume of which would materially reduce the figure.<sup>2</sup>

<sup>1</sup> The expense figures for these associations are not included in the study.

<sup>2</sup> A well-established cash-and-carry wholesaler located in the same city was at the same time quoting a price of \$44.24 on this same bill of goods. Thus, by going for the merchandise and paying cash prior to delivery, the retailer could save 5 per cent over the amount paid the cooperative association which extended credit for 7 days and delivered, or 12 per cent over that paid to a service wholesaler who extended 30-day credit and delivered. The wholesale cash-and-carry house, however, did not offer 1 per cent 10 days, net 30, as did the other two organizations.

Fortunately, there is available additional information, which helps to localize these apparent savings. One grocery cooperative house filed returns with the Harvard Bureau of Business Research for the calendar years of 1917 to 1923 which are as nearly comparable to any other report for those years as such a method of reporting information permits. This expense analysis

TABLE V.—PRICES QUOTED BY A LARGE GROCERY COOPERATIVE ASSOCIATION AND A LARGE SERVICE WHOLESALER IN A LARGE MIDDLE-WESTERN CITY DURING THE FIRST WEEK IN AUGUST, 1927\*

	Cooper- ative associ- ation	Service whole- saler
Gold Dust, 12 packages.....	\$2.70	\$3.20
Kellogg's Corn Flakes, 36 regular packages	2.65	2.85
Campbell's pork and beans, 36 No. 2 cans.	2.95	3.45
Lifebuoy toilet soap, 100 bars.....	6.15	6.50
Mason jars, Ball, $\frac{1}{2}$ doz. qts.....	8.95	9.25
Argo gloss starch, 48 1-pound packages...	3.35	3.60
Royal fruit-flavored gelatine, 36 $3\frac{1}{4}$ - ounce packages.....	3.15	3.45
Libby's beef extract, 12 2-ounce jars.....	3.55	4.00
Palmolive soap, 144 4-ounce bars.....	9.47	10.50†
Bon Ami, powdered, 36 12-ounce cans....	3.55	3.75
	\$46.47	\$50.55

\* Both offer 1 per cent cash discount, 10 days.

† List price is \$11, with a free deal of 12 per gross.

is presented on the next page, together with similar figures for the most efficient service wholesaler having total sales of approximately the same amount. Both are located in the Middle West, operating under similar conditions.<sup>1</sup> With these figures have been listed the average expenses for 501 service wholesale grocers reporting that same year, together with what few average figures are comparable for the cooperative associations in the same trade.

<sup>1</sup> The association was organized prior to 1915, has about \$500,000 capital stock outstanding, has 75 employees including 2 salesmen who do not solicit non-members. The association delivers twice weekly only to all city customers, who make up approximately 12 per cent of the total membership. The only practice not common to the average cooperative association in the grocery field is its policy of extending 30-day credit.

TABLE VI.—COMPARISON OF OPERATING-EXPENSE PERCENTAGE OF DIFFERENT GROUPS OF WHOLESALE GROCERS

	Average for 501 service wholesalers	Average for 21 coopera- tive associa- tions	One service wholesaler	One cooperative association
	1923	1926	1923	1923
			Sales \$2,000,000 plus	
Gross margin.....	11.3		9.27	7.88
Total sales-force expense.....	2.6		2.17	0.45
Advertising.....	0.06		0.11	0.04
Other selling expense.....	0.09		0.01	0.07
Total.....	2.75			
Wages of receiving and shipping force.....	1.2		0.19	0.97
Packing cases and wrappings....	0.05		0.50	0.01
Outward freight, express, and parcel postage.....	0.25		0.01	0.00
Outward truckage (including up- keep and depreciation).....	0.65		0.67	0.44
Total.....	2.15		1.37	1.42
Executive salaries (including buying).....	1.0		0.56	0.31
Office salaries, wages, and bonuses	1.0		0.82	0.96
Total executive and office salaries	2.0		1.38	1.27
Office supplies, postage, and sta- tionery.....	0.2		0.29	0.14
Telephone and telegraph.....	0.07		0.07	0.03
Other buying, management, and office expense.....	0.15		0.11	0.01
Total.....	2.42		1.85	1.45
Rent.....	0.50		0.41	0.71
Heat, light, and power.....	0.08		0.04	0.05
Taxes (except on buildings and delivery equipment).....	0.30		0.32	0.30
Insurance (except on buildings and delivery equipment).....	0.15		0.25	0.04
Repairs on Equipment (except of buildings and delivery equipment).....	0.03		0.00	0.00
Depreciation of equipment (ex- cept on buildings and delivery equipment).....	0.08		0.07	0.01
Total interest.....	1.5		1.69	0.74
Miscellaneous expense.....	0.2		0.20	0.07
Losses from bad debts.....	0.4		0.32	0.23
Total expense.....	10.6		8.81	5.58
Net profit.....	0.7		0.48	2.30
Stock turn (times a year).....	5.9		6.4	8.7
Capital turn (times a year).....	....		3.8	3.8

A further comparison by classes of expenses indicates that the single cooperative association has a lower expense than the average service wholesaler in all of the eight groups.

TABLE VII.—COMPARISON OF SAVINGS EFFECTED, 1923

	Percentage of savings effected by average service grocery wholesaler	Percentage of savings effected by a particular cooperative grocery association	Percentage of total saving by functions	Percentage of average service wholesalers' expense saved
Total selling expense.....	....	2.19	44	80
Total receiving and shipping expense.....	....	0.73	15	40
Total executive and office salaries.....	....	0.73	15	65
Other buying and office expense.....	....	0.24	5	55
Other overhead expense.....	....	0.03	1	2
Total interest.....	....	0.76	15	50
Miscellaneous expense.....	....	0.13	2	45
Losses from bad debts.....	....	0.17	3	40
Total.....	None	4.98	100	50*

\* Weighted average.

A similar comparison between a particular cooperative association and one service wholesaler, the most efficient in his sales-volume group, is presented in the following table:

TABLE VIII.—COMPARISON OF SAVINGS EFFECTED, 1923

	Percentage of savings effected by most efficient service grocery wholesaler	Percentage of savings effected by a particular cooperative grocery association	Percentage of total saving by functions	Percentage of most efficient service wholesalers' expense saved
Total selling expense.....	....	1.73	52	75
Total receiving and shipping expense.....	0.05			
Total executive and office salaries.....	....	0.11	3	10
Other buying and office expense.....	....	0.29	9	60
Other overhead expense.....	0.02			
Total interest.....	....	0.95	29	55
Miscellaneous expense.....	....	0.13	4	45
Losses from bad debts.....	....	0.09	3	30
Total.....	0.07	3.30 0.07 3.23	100	35*

\* Weighted average.

These figures studied in another way indicate that this particular cooperative association makes savings of 35 and 50 per cent over the most efficient service wholesaler and the average service grocery wholesaler, respectively, the total figures divided as follows:

	Percentage of savings over the	
	Most efficient	Average
Total selling expense.....	75	80
Total receiving and shipping expense.	-05	40
Total executive and office salaries....	10	65
Other buying and office expense.....	60	55
Other overhead expense.....	-02	2
Total interest.....	55	50
Miscellaneous expense.....	45	45
Losses from bad debts.....	30	40

Such a comparison indicates that this cooperative association makes its largest saving in total selling expense, followed by other buying and office expense, total interest, miscellaneous expense, and losses from bad debts. Since these different groups of expenses, however, make up varying proportions of the total expense, further analysis is necessary. With the total savings of 3.23 and 4.98 equaling 100 per cent, respectively, the percentage of total savings is divided among the various expense groups as follows:

	Percentage of savings over the	
	Most efficient	Average
Total selling expense.....	52	44
Total receiving and shipping expense.	None	15
Total executive and office salaries....	3	15
Other buying and office expense.....	9	5
Other overhead expense.....	None	1
Total interest.....	29	15
Miscellaneous expense.....	4	2
Losses from bad debts.....	3	3
	100	100



These figures show that the greatest actual saving is made in total selling expense and total interest. Although a substantial percentage of the service wholesaler's expense is saved by the cooperative in the case of other buying and office expense, miscellaneous expenses, and losses from bad debts, these classifications are not important enough to represent a large net saving to the association in dollars and cents.

As this association extends credit for an average of 30 days, its losses from bad debts are almost as large as those of the service wholesaler, even though the association is protected by limiting most of its sales to stockholders. Its stock turn is over twice as rapid. In making this comparison, it must be remembered that the total expense of 5.58 per cent is slightly lower than the average of 6.11 per cent for seven cooperative associations in the grocery field.

The final queries which can be partially answered by studying additional information concerning this organization are (1) To what extent are the 1923 figures typical? (2) To what extent are the percentage totals by groups of expenses the same over a period of time? and (3) To what extent does the percentage of total expense to total net sales decline with the increase in the dollar volume of sales? Comparable statements have been furnished the Harvard Bureau of Business Research for the years 1917 to 1921 and for 1923.

Table IX indicates that the 1923 figures are, in general, typical. It also indicates, because of increasing volume, changing market conditions, or changing policies, that total selling expense and advertising are gradually increasing in importance. Although the expense for wages of the receiving and shipping force has increased, the total figure remains about the same. The same is true of executive salaries and total buying and office expense. While there is no material change in the relationships of rent, light, heat, and power, taxes, insurance, repairs, and depreciation of equipment, total interest charges have declined as sales have increased. Losses for bad debts have increased materially beginning with 1921. Thus, while the percentage of total selling expenses and the percentage of losses from bad debts have increased during this period, the percentage of interest expense to total net sales has decreased; the figure for total expense averages approximately 5.5 per cent for the entire

TABLE IX.—COMPARISON OF EXPENSE PERCENTAGE OF A PARTICULAR COOPERATIVE ASSOCIATION FOR THE YEARS 1917 TO 1921 AND 1923\*

	1917	1918	1919	1920	1921	1923
Gross margin.....	6.85	6.95	4.42	3.62	5.05	7.88
Total sales force expense.....	0.06	0.41	0.35	0.48	0.35	0.45
Advertising.....	0.004	0.01	0.02	0.02	0.02	0.04
Other selling expense.....	0.00	0.06	0.02	0.04	0.02	0.07
Total.....	0.064	0.48	0.39	0.54	0.39	0.56
Wages of receiving and shipping force....	0.78	0.94	0.98	1.11	1.11	0.97
Packing cases and wrappings.....	0.03	0.06	0.02	0.02	0.03	0.01
Outward freight, express, and parcels post.	0.44	0.55	0.43	0.46	0.51	0.44
Outward truckage:	0.00	0.00	0.00	0.00	0.00	0.00
Total.....	1.25	1.55	1.43	1.59	1.65	1.42
Executive salaries.....	1.41	0.31	0.26	0.44	0.48	0.31
Office salaries.....		0.84	0.75	0.81	0.76	0.96
Total executive and office salaries....	1.41	1.15	1.01	1.25	1.24	1.27
Office supplies, postage, and stationery....	0.23	0.19	0.15	0.20	0.22	0.14
Telephone and telegraph.....	0.06	0.05	0.03	0.03	0.04	0.03
Other buying, management, and office expense.....	0.03	0.07	0.03	0.03	0.04	0.01
Total.....	1.73	1.46	1.22	1.51	1.54	1.45
Rent.....	0.51	0.94	0.36	0.44	0.49	0.71
Heat, light, and power.....	0.06	0.05	0.04	0.04	0.03	0.05
Taxes (except on buildings, and delivery equipment).....	0.12	0.34	0.30	0.39	0.36	0.30
Insurance (except on buildings and delivery equipment).....	0.11	0.11	0.09	0.07	0.08	0.04
Repairs on equipment (except on buildings and delivery equipment).....	0.00	0.005	0.00	0.03	0.01	0.00
Depreciation of equipment (except on buildings and delivery equipment).....	0.04	0.05	0.05	0.06	0.09	0.01
Total interest.....	0.14	0.99	0.41	1.08	1.19	0.74
Miscellaneous expense.....	0.09	0.09	0.06	0.02	0.02	0.07
Losses from bad debts.....	0.03	0.08	0.01	0.01	0.18	0.23
Total expense.....	4.18	6.15	4.35	5.78	6.03	5.58
Net profit.....	2.67	0.80	0.07			2.30
Net losses.....				2.16	0.98	
Stock turn (times per year).....	9.1	6.85	7.9	7.0	7.3	8.7
Capital turn (times per year).....		4.3	4.3	3.4	3.8	3.8

\* The sales of this company, over \$1,000,000 in 1917, gradually increased each year, with the exception of 1921, until they had more than doubled during the period.

period. The further conclusion is, therefore, that an increase in the volume of sales increases the expenses proportionately.

While the percentage of total expense to total net sales has remained rather constant, the gross margin has fluctuated widely, a relationship indicating that while expenses have been controlled to some extent, either prices have had to be reduced below normal at times or unusual mark-downs have had to be accepted. Stock turn has been fairly consistent throughout the period.

### REASONS FOR JOINING COOPERATIVES

Irrespective of the amount of saving in any particular case, practically all members originally join in order to secure lower wholesale prices. Out of a group of 152 retail druggists, 120 state this to be at least one purpose. Other reasons, some of which are given by the same persons, include "keeping service jobbers in line" (15); "securing quantity price in  $\frac{1}{12}$ -dozen lots" (14); and "meeting competition" (12). Practically all of these retailers state that these reasons continue to be the most important for remaining members.<sup>1</sup> The majority of these same druggists also report that the cooperative prices are the lowest, on the average, at which they can purchase.

TABLE X.—RELATIONSHIP OF COOPERATIVE RETAIL BUYING ASSOCIATION PRICES TO COMPETITION AS REPORTED BY 153 RETAIL DRUGGIST MEMBERS

Total.....	153
Association prices are lower.....	124*
About the same.....	16
Association prices are higher.....	8†
No answer.....	5

\* Of the retailers replying, nine state that manufacturers occasionally quote lower prices; four, service wholesalers; four, wagon wholesalers; three, "scalpers;" one, cash and carry; two, cut-rate wholesalers; two, brokers; two, mail-order wholesalers; and one, grip peddlers.

† Of the retailers replying, three state that manufacturers regularly quote lower prices; two, cash and carry wholesalers; one, service wholesalers; one, "cut-rate" wholesalers; and one, wagon wholesalers.

With these statistical data, backed by the opinion of retailers who support this evidence by buying from cooperative retail

<sup>1</sup> For the complete table, see Appendix H.

buying associations, it remains for this study to prove to what extent any such difference in expenses is a real reduction in the cost of performing one or more of the wholesale functions and to what extent cooperative associations operate at a lower expense because they shift some of the intangible as well as tangible costs of performing one or more of the wholesale functions to others who may or may not perform them more economically.

## CHAPTER V

### SELLING

It is evident from the cost data presented in the preceding chapter that the greatest single source of apparent saving is the reduction of the wholesale selling expenses; it is well, then, to examine the method of selling used by the associations to determine to what extent the saving is real and to what extent it represents a shifting of wholesale expenses to other distributors.

**Orders Solicited by Telephone and Mail.**—As is customary with many service druggists, most drug associations telephone each member at some definite time during the day or week. The retailer is presumed to have a “want” or “out” list ready. The telephone girls, each of whom keeps a regular list of customers, take down the orders directly upon the typewriter or upon bookkeeping machines, with enough duplicates to serve the office, order-filling departments, and customer. These girls have a list of “outs,” are acquainted with the current free deals, and from time to time help to push certain goods.

In the grocery trade, however, there is a greater tendency to allow the members, even those located in the same city, to mail in their orders. When the telephone is used, the customer often takes the initiative. Orders are accumulated until the first delivery to the retailer's district, when all are delivered at once.

TABLE XI.—METHODS OF SOLICITING ORDERS

	Total	Drug	Grocery
Total.....	39	11	28
Telephone.....	20	8	12
Mail.....	5	0	5
Both equally.....	11	3	8
Little (one cash and carry).....	2	0	2
No answer.....	1	0	1

**Use of Salesmen.**—It is not correct, however, to infer, that because the associations use the mail and telephone to such an

extent, that they entirely dispense with personal selling. Out of 39, at least 16 employ from 1 to 6 traveling salesmen.

TABLE XII.—TRAVELING SALESMEN EMPLOYED BY COOPERATIVE RETAIL BUYING ASSOCIATIONS

	Total	Drug	Grocery
Total.....	39	11*	28*
None.....	22	6	16
1 salesman.....	7	1	6
2 salesmen.....	5	3	2
3 salesmen.....	2	1	1
4 salesmen.....	0	0	0
5 salesmen.....	2	0	2
6 salesmen.....	1	0	1

\* Figures do not include telephone salespeople.

When it is realized, however, that 11 drug cooperatives average less than 1 traveling salesman each (10), while 28 grocery cooperatives average slightly more than 1 each (29), the saving is evident. The Harvard Bureau of Business Research says: "A typical sales force for a firm with representative sales volume was made up of 7 country salesmen, . . . and 5 city salesmen."<sup>1</sup> The total sales volume of such a drug wholesale house, \$1,250,000, is much less than the average figure of \$1,900,000 for the cooperative in the same field.<sup>2</sup> Duncan states: "The average number of salesmen per establishment for these 289 [grocery] jobbing concerns was a little over 7."<sup>3</sup> Although he does not give the average sales per company, the average total sales for cooperatives are greater than those for service houses in this trade.<sup>4</sup>

<sup>1</sup> *Bull.* 50, p. 30, 1924.

<sup>2</sup> In a special report by W. A. Hoover, originally made in April, 1925, and published in the *Wholesale Druggist*, pp. 24, 25, October, 1927, he states that 13 service wholesale drug houses secure an average of 80 per cent of their total net sales through salesmen. For individual firms, the figures range from 57 to 100 per cent.

<sup>3</sup> *Methods of Paying Salesmen*, Southern Wholesale Grocers' Assoc., p. 4, 1921.

<sup>4</sup> It must be recognized that these figures are not entirely comparable. No allowance is made for inside and telephone salesmen. The figures would appear to be comparable for the grocery trade. Neither service nor cooperative houses make much use of either. In the drug trade, telephone salesmen are probably employed by associations to a greater

With only one known exception, the expense of employing these salesmen is included in the total expense of the association.

One large grocery association employs 6 salesmen, who have routes and regularly cover the membership every 2 weeks. The services of these salesmen, however, are sold to manufacturers at 12 cents a call. For each period of 2 weeks, all salesmen limit their efforts to selling the products of only 4 manufacturers. Copies of all orders and a report on the number of calls are sent to each manufacturer. The representative of one manufacturer was highly pleased with his results, having used the method several times. He reported that the association salesmen, being known to the members, were much more successful than his own had been or could be. He added that there was usually a waiting list of manufacturers desiring the service. The income from this source practically pays all the expenses connected with the operation of the 6 men.

**Catalogues and Bulletins.**—The lack of personal selling can be a handicap as well as an advantage. Realizing this fact, most associations issue catalogues or their equivalent containing information on lines and prices. These are particularly necessary in the drug and hardware trades, where the number of items quickly runs into the thousands. These catalogues range from an annual publication of several hundred pages to a less formal edition appearing more frequently.<sup>1</sup> The more formal catalogue arrives only at infrequent intervals, however, and in itself is a poor substitute for active selling effort upon the part of the wholesale house. The result is that most associations issue what are commonly called "bulletins," appearing tri-weekly, bi-weekly, bi-monthly, monthly, and at other and irregular intervals. The monthly publication of the Northwestern Drug Company, a booklet averaging over 100 pages, includes the advertisements of manufacturers, new prices, new deals, chats, news concerning the membership, and retail management helps. With one other exception in the grocery trade, however, no

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extent than in a service house, although even here telephone salesmen are widely and regularly used. Neither commonly uses them for country trade.

<sup>1</sup> G. E. Hall, manager of the G. E. Hall Hardware Co., Minneapolis (cooperative), says: "Our catalogue is a duplicate of the one other hardware wholesalers give their salesmen. The only difference is that we give the catalogue and the prices to the retailers themselves."

other cooperative reports that it solicits or runs paid advertisements from manufacturers.

TABLE XIII.—COOPERATIVE RETAIL BUYING ASSOCIATIONS PUBLISHING A BULLETIN

	Total	Drug	Grocery
Total.....	39	11	28
Publish a bulletin.....	28	11	17
Do not publish a bulletin.....	11	0	11

The most common type of bulletin is the weekly publication, largely given over to informing the retailer of price changes, new deals, expired deals, and, occasionally, market conditions. On the one hand, these bulletins as substitutes for salesmen are satisfactory. First, they give all the information the average wholesale salesman usually gives the retailer, and, second, they give it in compact record form, so that much less time of the retailer is wasted. Such is the opinion of some cooperative retailers.<sup>1</sup> For the merchant who knows what he wants, such a method is most satisfactory.

**Weakness of Catalogues and Bulletins.**—Such dependence, however, upon a printed bulletin may prove a handicap. The offers extended to the membership depend upon the manager and his buyers. Where an independent retailer may depend upon five or ten wholesalers,<sup>2</sup> as well as the salesmen of some manufacturers for his information, the cooperative member, if loyal to his association, may limit his source of information. Thus, greater responsibility is placed upon both the manager to secure current market prices, new deals, and other market information and make it quickly available to his members and upon the retailer to watch the periodicals and competition for shifts in the market. Failure upon the part of the manager means

<sup>1</sup> One retailer in the drug field writes: "Can sit down and order what I want from my own house without any interference from aggressive salesmen who often want to sell more than the business justifies." Another says: "They don't pester me with salesmen and I buy as I please." A third says: "The cooperative has no glad-hand artist to pat you on the back and then stick the hooks into you when he can."

<sup>2</sup> In *Management Problems in Retail Grocers Stores*, Harvard Univ. Bur. of Business Res., *Bull.* 13, p. 25, is the statement: "The average retail grocer . . . buys his merchandise from not more than ten wholesalers."



disintegration for the entire organization. Failure on the part of the retailer means the loss of his former competitive position.

**Dealer Helps.**—Dealer help, or merchandising, is another selling activity of cooperative retail buying associations. In a group of 37 associations, 27 offer some type of selling assistance to their members. The help itself varies widely. First, some of it can be called "management help," consisting of suggestions as to location, arrangement, education concerning operation,<sup>1</sup> and pricing. Occasionally, the manager, or his assistant, is called upon to help an applicant for membership secure a location or to suggest a good location for a new store to be operated by an old member. More commonly, an association, through its "organizers" or "missionary" salesmen, will offer to plan a new front, paint up the old one, put in new windows, or rearrange the interior of old stores, at cost to the member. At the present time, one association is concentrating upon this type of work.

One large grocery association has appointed an advertising director. He is organizing an association within an association. All members of the buying association can belong to the second if they come up to predetermined standards of management and their stores to established standards. There are four steps in the entire merchandising program: (1) All members of the inner association must have similar store fronts, including an association sign and a large standard light fixture. The total cost is about \$100. (2) The interior of the store must be painted or cleaned, according to conditions, and laid out according to the latest ideas. The cost to one retailer was \$350. (3) The buying association offers three "specials" a week to be sold to the members and by the members at special prices. The special and the prices are selected by the advertising manager. With the order for these goods go three posters and one store sign. If members join the second association, they must display the signs and sell at the special price or be fined from \$1 to \$5 each. (4) The last step is the local newspaper advertising placed by the association but paid for by the members individually. This cost has been estimated to be about \$10 a member

<sup>1</sup> The Cincinnati Economy Drug Co. held a 5-day business convention in Cincinnati, June 4 to 8, 1928, which about 600 members attended. Educational talks on business conditions, competition, and operation were given. Educational exhibits were erected by approximately 35 manufacturers. *Pharm. Era*, June, 1928.

quarterly. The entire scheme is an attempt to sell as well as buy cooperatively.

TABLE XIV.—DEALER HELP OFFERED MEMBERS OF COOPERATIVE ASSOCIATIONS

	Total	Drug	Grocery
Total.....	27	6	21
“Personal advice”*.....	6	2	4
“Special window trims”.....	3	1	2
“Special prices for sales”.....	2	0	2
“Conduct a grocers’ school”.....	2	0	2
“Window posters”.....	2	0	2
“Signs”.....	1	1	0
“Paint store fronts”.....	1	0	1
“Inspect stores”.....	1	0	1
“Review the market”.....	1	0	1
No answer.....	8	2	6

\* Consists of help in store management, accounting, arrangement and sanitation, advertising and display, and pricing.

**Advertising.**—A second type of merchandising help is concerned with advertising, which commonly consists of circulars or newspaper advertisements. Both are uncommon in the drug field. In the grocery field they are used as a competitive weapon primarily against chain stores. Of the 12 grocery

TABLE XV.—USE OF NEWSPAPER ADVERTISING BY COOPERATIVE ASSOCIATIONS

	Total	Drug	Grocery
Total.....	39	11	28
Used.....	12	0	12
Not used.....	24	11*	13
No answer.....	3	0	3

\* One replied: “Not yet.”

associations which use this type of advertising, 8 use it regularly and 10 report that manufacturers, whose products are advertised, help pay its costs. Of 46 manufacturers whose products are distributed in the drug and grocery fields, 19 report that they have been solicited; 27 reply that they have not.<sup>1</sup> Those who

<sup>1</sup> Of the 19 solicited, 10 are grocers; of the 27 not solicited, only 7 are grocers.

have been solicited give rather vague replies concerning their policies. Some very definitely turn down all applicants. More treat each request as an individual case.

**Weekly Specials.**—Both circulars and newspaper advertising are usually employed to announce specials each week.<sup>1</sup> A committee is usually appointed by the membership to select the specials and set the price. This action is usually taken in conjunction with the manager, who knows the condition of the wholesale market. The committee knows the cut prices currently offered and is able to set a resale price which is highly competitive. Sometimes, these products are sold at cost by the association. At other times, the association asks for special prices from the manufacturer.<sup>2</sup>

TABLE XVI.—EXTENT TO WHICH COOPERATIVE ASSOCIATIONS ASK MANUFACTURERS TO GIVE SPECIAL DISCOUNTS FOR SPECIAL SALES

	Total	Drug	Grocery
Total.....	56	21	35
Special discounts have been requested.....	14	9	5
Special discounts have not been requested..	29	5	24
No answer.....	13	7	6

Members are notified in plenty of time, so that they can order a sufficient supply for their anticipated trade. A problem occasionally arises in limiting them to their needs, especially if the price to the membership is particularly low. Circulars are prepared and distributed to the members, and the newspaper advertisements placed. This work is usually done by the manager or one of his associates or, occasionally, by an advertising agency.

It is common to make a direct charge for these circulars, the amount depending upon the number ordered. If an agency is used, the members are usually billed directly. If the association is billed, it is common to add the prorated cost to the weekly statement rather than to include such expense as a part of the operating cost of the association.

<sup>1</sup> For two examples of newspaper advertisements, see Appendix B.

<sup>2</sup> The general policy of manufacturers in the drug field, irrespective of requests, is to turn down such requests when and if made, but to give concessions on a quantity basis or through the use of free deals, open to all alike. In the grocery trade, there is a greater tendency to consider individual requests on their own merits.

**Personal Advice.**—A third type of help comes in personal advice, usually solicited, which an association can offer individual members.<sup>1</sup> The value depends entirely upon the quality of management and the relationship of the management to its membership. Occasionally, the manager or his representatives will suggest, upon request, proper retail prices for different articles.

Very few associations have what might be called "missionary" men who spend their time helping members help themselves. Occasionally, men hired to help secure new members will do this work, but such work is not common to them.

### Critical Summary

The lack of selling effort as exerted between the association and its membership is both a weakness and a strength. It is a weakness in that the association cannot aggressively increase sales either to members or to non-members.<sup>2</sup> It is a strength, and the strongest single advantage of the cooperative retail buying association, in that the largest single item of wholesale expense is greatly reduced.<sup>3</sup> Some druggists are glad to be free from the salesmen, who take their time and continually urge them to purchase merchandise which they feel they do not need. C. S. Gustafson, in an unpublished thesis on *Distribution of Wholesale Salesman*,<sup>4</sup> found that the average number of retailers per wholesale<sup>5</sup> salesman in this

<sup>1</sup> The manager of a medium-sized cooperative association in the drug field says: "We give our dealers every bit of possible advice and service that can be given by any jobber. We get them clerks, get positions for clerks, we sell their stores without compensation, help them on advertising and getting up special sales, give them legal advice free, help them to get loans, plan stores for them, and, in fact, there is nothing in the way of a service that they can ask for but that we can help them."

<sup>2</sup> This point is clearly brought out in the testimony of W. G. Mennen, who said: "We find that the cooperatives pursue no active merchandising program. They are very largely buyers for the members of whatever organization it may be . . ." *Federal Trade Commission vs. Mennen Co.*, testimony, p. 453.

<sup>3</sup> For figures, see p. 34.

<sup>4</sup> Submitted in the sales management course, Harvard Graduate School of Business Administration, 1927.

<sup>5</sup> In addition to these men, manufacturers, regular, and missionary salesmen call.

trade was about 17; in several states, less than 10.<sup>1</sup> Service wholesalers themselves agree that this number is more than sufficient.

**Reduction of Selling Expense.**—Such expense is only reduced, however, and not eliminated, as is commonly stated. If the number of traveling salesmen is reduced or all are dispensed with, substitutes in the form of catalogues and merchandising helps are used with increasing regularity.<sup>2</sup> While it is true, in the drug trade especially, that telephone salespeople are used, such a practice is also common among service wholesalers.

**Effect On Manufacturers.**—Merely to say, however, that the association has selling expenses which are less than those of a service wholesaler does not answer the critics who feel that they are less because other distributors are required to assume some of these expenses. They say that the cooperatives increase the selling costs of manufacturers distributing through them by requiring them to advertise in association bulletins, to pay for space in association newspaper advertisements, and

<sup>1</sup> Tentative figures, made available through the courtesy of Nelson A. Miller, of the Domestic Commerce Division, Bur. of Foreign and Domestic Commerce, indicate that 27 retail grocers in Louisville, Ky., purchased merchandise for resale from 203 suppliers as follows:

Number of sources	Commodity group	Approximate number supplying each retail grocery store
25	Wholesale groceries, coffee and tea	3
29	Bakers, including crackers	4
27	Dairy products, produce (5)	3
16	Fruit and vegetables	2
35	Meat packers	3
28	Candy, beverages, tobacco (1, 3, 3 per store)	7
16	Vinegar, pickles, preserves	3
4	Flour	2
17	Non-edibles	8
6	Miscellaneous	
203		

Thus, the average retailer as represented in this study buys currently from 35 sources.

<sup>2</sup> The president of an old drug association says: "The next thing we need is cooperative advertising and chain-store fronts and layouts." The manager of a large Middle-western grocery cooperative says: "If I could run a two-page spread in the local newspapers once a week, I should be in a position to meet chain-store competition on an equal basis." Attention has already been called to various merchandising methods used by others.

to use more missionary men or pay for the services of salesmen employed by the association. These criticisms, while true in individual cases, are not generally important. Such effort is not common in the drug trade. Information from both the manufacturer and the association indicates that few associations publish bulletins containing paid advertisements of manufacturers. Drug cooperatives do not use newspaper advertising, and only one is known to have missionary salesmen whose salaries are paid by the association.

There is, however, a more general shifting of expenses in the grocery trade. While only 1 out of 17 associations publishing a bulletin solicits advertisements from manufacturers, 10 out of 12 using newspaper advertisements do so. While the price charged for such space is usually the net cost of the space used, at least one grocery association earns enough in this manner to help cover part of the general operating expenses. In addition, the expenses of missionary salesmen are paid by the manufacturers in at least one instance. It is truer in this case, however, than in either of the above two, that such salesmen may be a substitute for the salesmen of the manufacturer, who would be less effective because they were not so well known to the local trade.

**Effect On Wholesalers.**—Limited selling activity cannot affect other types of wholesalers, and especially the service wholesaler, except in so far as their scope of sales effort is narrowed to non-members who are not aggressively solicited by the associations and who are smaller or more inefficient distributors. While it has been pointed out that such a condition is partially true,<sup>1</sup> the number of retailers who are members of cooperatives is so small that the handicap is not great. Only in those cities where the percentage is unusually high does this question become an important one.

**Effect On Retailers.**—On the other hand, the retailers would appear to suffer by this shift through the increased inconvenience of making out their own orders, increased advertising expense, and general lack of knowledge of market conditions. The dealers, themselves, however, minimize these seeming handicaps. Information from the retailers concerning their

<sup>1</sup> In the drug trade, 13 per cent; in the grocery trade, 12 per cent (see pp. 23 and 26, respectively).

attitude toward the substitution of ordering by mail and telephone for personal solicitation is available only from druggists. Out of 148 cooperative members, 83 commonly use the telephone and 58 the mail, while 7 use both equally often. The majority of them are satisfied.<sup>1</sup>

TABLE XVII.—CONVENIENCE OF MOST COMMON METHOD OF ORDERING FROM THE COOPERATIVE ASSOCIATIONS

	Total	Tele- phone	Mail
Total.. .. .	141	83	58
Convenient.....	94	62	32
Inconvenient.....	37	19	18
No answer.....	10	2	8

The amount of collective advertising done by associations, even in the grocery trade, is limited. Such expense, which is in no way peculiar to retailers who are members of associations, is small—often smaller than it would be were the retailer to attempt to do some media advertising of his own. As has already been pointed out, collective advertising, aside from collective buying, is a growing practice.<sup>2</sup>

The question of market information is much more tangible. Members do secure such information at weekly or monthly meetings, if they attend; through the various bulletins; or over the telephone. If the member is loyal and has slight contact with the salesmen of other wholesalers or with manufacturers, and the management fails to observe carefully all phases of the market, the use of this one avenue may be a handicap. Such a disadvantage, however, may easily be overestimated.

**Conclusion.**—Thus, it would appear that by substituting a less expensive method of selling, cooperative retail buying associations do reduce the cost of performing this function without greatly affecting directly or indirectly (a) the selling expenses of the manufacturer, (b) the position of the service wholesaler, or (c) the buying expense of the retailer.

<sup>1</sup> The validity of such a conclusion upon the part of the retailers themselves can be questioned. No tangible evidence can be presented, however, to prove the contrary so long as these retailers continue to use this method.

<sup>2</sup> See p. 1.

## CHAPTER VI

### CREDIT

The second function performed by cooperative retail buying associations at a saving is that of extending credit.<sup>1</sup> Cooperatives are presumed to extend no credit, yet, in spite of this opinion, only 1 out of 38 associations, about which such information is available, extends absolutely no credit. In this association, the District Grocers Society, Washington, D. C., the only strictly cash-and-carry cooperative organization discovered during this study, no member can call for and carry away with him any goods for which he does not at that time pay cash. All the other 37 extend credit from 1 week to 30 days, and longer in the case of delinquents.

**Extension of Credit.**—While it is true that retailers who are members of cooperative associations are given credit, their

TABLE XVIII.—LENGTH OF CREDIT EXTENDED BY COOPERATIVE RETAIL BUYING ASSOCIATIONS

	Total	Drug	Grocery
Total.....	39	11	28
No credit extended.....	1	0	1
Monday of following week.....	3	2	6
Tuesday.....	2	1	1
Wednesday.....	4	1	3
Thursday.....	3	2	1
Friday.....	2	1	1
Saturday.....	1	0	1
Any particular day following week.....	4	1	3
In 10 days.....	6	0	6
Twice a month.....	3	3	0
In 30 days.....	4	0	4*
No answer.....	1	0	1

\* One states: "Thirty days average." Another: "One per cent 10 days, 30 days net." A third: "Two per cent 10 days, 30 days net."

<sup>1</sup> The association for which expense figures are given in Chap. IV extends credit 30 days, and for this reason the 1923 credit expense figure of 0.23 per cent should not be considered as typical (see p. 34).



credit is much shorter, on the average, than that allowed by other distributors. In general, the method is to collect all the invoices of orders which have gone out during any particular week, make out a statement on Thursday afternoon or Friday, and place it in the mails for delivery Monday morning. All checks are then presumed to be received or to be in the mails by a certain day that week for the purchases of the preceding week. Such a policy results in an average extension of credit, particularly in the drug trade, of 7 to 10 days.<sup>1</sup> At least three drughouses bill their members only twice a month.<sup>2</sup>

Unlike the practice in the drug trade, the practice in the grocery trade is a little more varied, ranging from cash before delivery to 10 days 1 or 3 per cent, 30 days net, the common dating given by grocery wholesalers extending credit. The cost of extending credit in those last few cases is just as great for a cooperative association as for a service wholesaler, and possibly more expensive, depending upon the credit rating of the membership and the protection which the company has on merchandise delivered but not paid for. The balance sheets and profit-and-loss statements of a few associations show, for example, that the actual credit outstanding for one cooperative drug association requiring bimonthly payments equaled 30 days for the year 1926 and 20 days for the year 1925. Another, with sales over \$2,000,000 in 1926, had credit outstanding at the end of the year equaling 13 days. In the grocery trade, one association, extending 7-day credit and having sales well over \$2,000,000 in 1927, had, at the end of that year, accounts receivable equaling 15 days.

<sup>1</sup> This procedure is explained in Art. X, Sec. 2 of the by-laws of the New Jersey Wholesale Drug Co.: "Each stockholder privileged to purchase the goods, wares, and merchandise of this company shall be allowed a line of credit which shall in no event exceed 75 per cent of the par value of his stock holdings, plus 75 per cent of the amount of his cash deposit with this company, if any. On Thursday of each week, all purchases of goods billed for the previous 7 days shall be paid and settled. To all bills not paid when due there shall be added one-fourth of 1 per cent each day for the next 8 consecutive days; and if said bills remain unpaid thereafter, there shall be added thereto an additional penalty of 1 per cent per month till paid, and, in addition, the board of directors may suspend the buying privilege of said delinquent and enforce the lien of the company upon the stock of such delinquent." Respondent's Exhibit 1, Federal Trade Commission *vs.* Mennen Co.

<sup>2</sup> The manager of one writes: "Twice a month (first and fifteenth). No penalties. Limited credit for \$300 members. Extended credit for \$1,000 members."

**Comparison of Cooperative and Service Wholesale Credit Policies.**—Dr. Newcomb, secretary of the National Wholesale Druggists Association, estimates that service wholesale druggists, on the average, extend credit for 45 days; at any one time, therefore, the equivalent of 12.5 per cent of their sales is outstanding as accounts receivable.<sup>1</sup> Compared with a figure of 2.8 per cent—the equivalent of an average extension for cooperatives of 10 days—the saving in interest charges on the capital owned or borrowed by service wholesalers which is used in carrying accounts is an important item. Thus, the average cooperative association would, roughly, save 8 per cent of its interest, assuming that the ratio between total net sales and total capital is 1:1. This ratio is nearer 4:1, however,<sup>2</sup> so that the net saving to associations, resulting from curtailed credit extension, would equal about 2 per cent of the total interest charges for service wholesalers.

**Credit Losses.**—Since an association selects its credit risks when it selects its members, and since it extends limited credit, a further saving is made by the association by reducing credit losses. In general, cooperative houses suffer very few losses from the overextension of credit. One large grocery cooperative association organized in 1919 sustained losses from bad debts to the amount of \$17.50 up to the first of 1926. Another doing a business of several million dollars a year reports no losses for 1926. A third, however, of about the same size and offering 30-day credit sustained an average loss for 1923 to 1927, inclusive, of 0.273 per cent of net sales. This figure compares with 0.40 per cent, the 1923 average for 501 service grocery wholesalers.<sup>3</sup> A credit loss of 0.15 per cent was reported by one service wholesaler for 1923.<sup>4</sup>

**Delinquent Members.**—With the use of stricter credit terms, the question immediately arises as to what is to be done with members who do not pay within the time set. The practices are to cut off immediately a member from further purchases until the money is received, to penalize him while allowing him to purchase goods in value equal to his holdings in the association, or to

<sup>1</sup> Dr. Newcomb estimates this credit equals the sum of approximately \$50,000,000.

<sup>2</sup> See Table XLIV (p. 114).

<sup>3</sup> Operating Expenses in the Wholesale Grocery Business in 1923, Harvard Univ. Bur. of Business Res., *Bull.* 40.

<sup>4</sup> Supplied by Harvard Bur. of Business Res.

allow the account to run until paid or set aside as a loss. The important distinction, however, lies not in the policy but rather in the manner in which that policy is executed by the association. While every manager will agree that all members should be treated exactly alike, equal treatment is difficult to administer. The causes for delinquency are many. To treat all alike may mean treating some unfairly. More important, it may mean losing a good member. If members are not treated alike, however, jealousy arises and losses occur.

**Enforcement of Credit Policy.**—To cut off a member immediately is considered a too strict policy by most associations, irrespective of the cause, particularly when that member has several hundred dollars invested in the company. The manager of one association states that if a statement is not paid by Tuesday, 2 per cent is added and members are cut off from further purchases. The most common practice, however, is to notify the delinquent member, charge him 1 per cent, 2 per cent, or more each on the amount, and to supply further orders only up to the amount of the investment of that member in the business.<sup>1</sup> These penalties run quite high in some organizations. One drug association which charges a penalty of 2 per cent a week receives about \$350 to \$500 a month from this source. Yet this is less than \$1 a member per month.

In spite of the policies and rules, and in spite of the associations which definitely enforce the rules which are promulgated, the managers and officers of many associations treat each case upon its own merits.<sup>2</sup> Delinquency, itself, is probably a question just as important with many cooperatives as it is with service wholesalers.

Such penalties, which could not be charged by a service wholesaler serve as added income to the association, income to

<sup>1</sup> One manager writes: "Four per cent penalty upon non-payment." Another charges 2 per cent penalty. Another says: "If he doesn't pay for all of the goods he gets this week, he is charged 2 per cent a week until he does pay."

<sup>2</sup> This attitude is expressed by the manager of a cooperative drug house: "Our bills all become due Wednesday night . . . We close our business Friday that is due next Wednesday. If the man has plenty of resources we let it go for another week or so. If his resources are not good, order is not shipped until the money comes in to pay for it." Another states that he charges no penalty but that credit is limited to stock holdings. Another writes: "No penalty, but cut off after 10 days if credit used up."

be used in reducing the total operating expenses. While the limited extension of credit and the fewer losses reduce the clerical work as well as the supervisory work of a credit department, the common necessity of levying penalties offsets any possible saving from such a source, to say nothing about the friction and hard feelings which may be generated.

### CRITICAL SUMMARY

While the cooperative retail buying association acting as a wholesale house does make a saving in performing the function of credit, the cost of credit is neither eliminated nor reduced to the extent to which the figures might suggest. In the first place, contrary to the opinions of some, the association shifts no part of the expense to the manufacturer by requiring more credit than do regular service wholesalers. The manufacturers state that such associations, on the average, take their discounts slightly more often than do competitors. In other words, while the association forces its members to use less credit, it uses less itself.

TABLE XIX.—EXTENT TO WHICH COOPERATIVE ASSOCIATIONS AND SERVICE WHOLESALEMS TAKE THE CASH DISCOUNTS OFFERED BY MANUFACTURERS

	Total	Drug	Grocery
Total.....	56	21	35
Cooperative associations take discount less often.....	1	1	0
Cooperative associations take discount as often as.....	41	14	27
Cooperative associations take discount more often.....	7	3	4
All business net.....	3	2	1
No answer.....	4	1	3

**Shift of Credit Expense.**—While cooperative retail buying associations reduce the cost of extending credit by reducing the risks which are involved, they at the same time shift some of the expenses, both to credit-extending wholesalers and to retail members. First, if the service wholesaler is left a larger portion of those retailers who are not capable of paying cash within 10 days, he must assume a greater proportion of the risks and, presumably, with the same amount of skill in the exten-

sion of credit, must incur greater losses. In the second place, the service wholesaler is required to hold a larger portion of capital in his business, upon which he should earn a fair rate of return, for the use of both association members as well as non-members.

**Securing of Credit from Service Wholesalers.**—Few members of such associations can operate without at times calling upon other distributors for extended credit. The cause may be personal. More often, it is a fluctuating business, peak purchases for which have to be secured on time. The managers of 11 out of 28 associations, 9 of which are grocery cooperatives, state that the lack of sufficient credit is the most important reason why members do not purchase more from the association.<sup>1</sup>

TABLE XX.—EXTENT TO WHICH LIMITED CREDIT EXTENDED BY COOPERATIVE RETAIL BUYING ASSOCIATIONS IS SATISFACTORY TO RETAIL DRUGGISTS

Total.....	135
Satisfactory.....	110
Not satisfactory.....	17
No answer.....	8

Of the 17 retailers who find the present credit terms inconvenient, 7 lack adequate capital to operate on such a basis, 4 would rather pay once a month, 3 declare that weekly payments take up too much time, while 3 do not answer. In citing things about their association which each member would like to see improved, 5 state that they would like longer credit terms.<sup>2</sup>

One retail druggist, who has been asked to join an association but has never done so, writes:

It is probably true that cooperatives will order more from the service jobber around the first of the month than the last and that he will order more in proportion when the course of his business demands the greatest amount of cash. If the service wholesaler were not there to handle this residue of business, the cooperative associations would have to change their policies, increasing their costs of financing their members.

Thus, that portion of the capital charges which is shifted to other wholesalers represents no net saving at all but indicates a maladjustment among competing distributors.

<sup>1</sup> The manager of a drug cooperative reports that many of his members "go to jobbers who give them 1 per cent, 45 days, or net 60, 90, or 120 days."

<sup>2</sup> For complete table, see Appendix I.

Looking at the problem from the point of view of the retail member, there is (1) the important question of his real need for credit, the extent to which he will be forced to buy elsewhere if his credit is absolutely limited to 7 to 10 days, and (2) his ability to employ capital more economically than the association by owning outright his stock of merchandise.

In answer to the first proposition, 110 retail druggists think that their association's present plan of extending credit is satisfactory.

**TABLE XXI.—REASONS WHY RETAILERS LIKE LIMITED CREDIT**

Total retailers replying.....	110
"Have the money".....	17
"Prevents overbuying".....	14
"Forces prompt payment".....	7
"Easier to pay small bill".....	5
"Customary".....	3
Indifferent.....	6
No answer.....	58

**Conclusion.**—Such answers, however, even though they correctly represent conditions, do not answer the second question. In a similar position to the service wholesaler, the retail member who pays cash for his goods must have more capital tied up in his store than the one who uses credit. He, too, should have a fair return upon this added investment, with the result that the only possible net saving by the shift of interest expense would come in the ability of the retailer to secure his money at a lower cost than could the association. Such a conclusion seems to be improbable.

## CHAPTER VII

### DELIVERY

No cooperator presumes that a cooperative retail buying association by nature of its organization can reduce the delivery expense. In Chapter IV it was pointed out that the receiving and shipping expense of one particular association was slightly higher than that of an efficient service wholesaler, although considerably lower than that for the average grocery service wholesaler.<sup>1</sup> This particular cooperative association, however, delivers direct to only 12 per cent of its membership located in the distributing city, but hauls shipments free of charge to the proper railroad station or express office for all other members.<sup>2</sup>

**Extent of Delivery.**—The majority of cooperative retail buying associations deliver, although a substantial number of those in the grocery trade do not. There are at least two reasons for the difference in practice in the two trades: (1) all but the cash and carry independent grocer have their own delivery equipment; retail druggists ordinarily do not; (2) service wholesalers in the drug field give more delivery service than do those in the grocery trade. This increased delivery service in the drug trade results from three conditions: (a) the number of items commonly carried by distributors in the drug trade is larger than that carried in the grocery trade; (b) the average-sized order in the drug trade is smaller; and (c) the number of orders each week is greater. In metropolitan centers, the drug service wholesaler has encouraged such a condition by calling retailers daily by telephone, soliciting small orders. Cooperatives in both trades show the same tendencies as the service wholesalers.

<sup>1</sup> See p. 34.

<sup>2</sup> It will be remembered that the total expense for 7 grocery associations which delivered was about 2.5 per cent higher than that for 8 others which did not. This figure compares with 1.45 per cent, an estimated cost of delivery for 501 service wholesale grocery firms. It includes one-half of "wages of receiving and shipping force" and all of "packing cases and wrappings, outward freight, and outward truckage."

A majority of the cooperative druggists give daily delivery service. The Philadelphia Wholesale Drug Company, which makes two deliveries to each local member daily when necessary, delivers the same day all orders received as late as 4 p.m. and

TABLE XXII.—EXTENT TO WHICH COOPERATIVE ASSOCIATIONS DELIVER

	Total	Drug	Grocery
Total.....	39	11	28
Deliver.....	30	11	19
Do not deliver.....	9	0	9

maintains a special delivery service for rush orders. In the grocery trade, however, once or twice a week is the most common service offered by those who do deliver.

TABLE XXIII.—NUMBER OF DELIVERIES PER WEEK BY COOPERATIVE RETAIL BUYING ASSOCIATIONS

	Total	Drug	Grocery
Total.....	30	11*	19*
1.....	5	0	5
2.....	8	2	6
3.....	3	1	2
4.....	0	0	0
5.....	1	1	0
6.....	8	6	2
No limit.....	3	1	2
No answer.....	2	0	2

\* Figures apply only to delivery in metropolitan district.

Even when the association is responsible for the delivery of all merchandise, it does not always include the cost of such service in its mark-up or cost of doing business. Out of 30 associations which regularly deliver, 1 drug and 7 grocery cooperatives make a direct charge to each member.<sup>1</sup> In such cases, the association seldom owns the delivery equipment, with the possible exception of one emergency delivery truck, but contracts with some truck-

<sup>1</sup> The one drug cooperative charges 10 cents an order. The average cost to the association is 13½ cents. Two grocery cooperatives charge their members 1 per cent of the invoice; one charges 1 to 1½ per cent; and two charge 2 per cent.



ing firm at a certain sum per box or package—so much per hundredweight or at a definite fee per month.

**“Country” Delivery.**—Many associations, which do their own delivering within the city, hire trucking firms for distant members, the cost of which is commonly paid by the member directly. If an order is to be expressed 35 or 100 miles, the association will truck the order to the express or railway office at its own expense. The member will pay the C.O.D. charges from that point on. Only one true cooperative association<sup>1</sup> is known to have a warehouse branch.<sup>2</sup>

Of the 28 grocery cooperatives, 9 make no deliveries, depending entirely upon their members to come for or send for their orders. Associated Grocers, Inc., St. Louis, delivers in association trucks, but if a member desires to come for his own goods, he is credited with 1 per cent of the order. Such action upon the part of the member is discouraged, however, for the very obvious reason that the organization is not prepared to fill orders out of turn and does not have the mechanism necessary to satisfy both systems. In like manner, the member puts the association to the trouble of telephoning a trucking company which may or may not deliver the goods promptly and in good condition. In such cases, whether the goods are delivered by an independent agency or by the retailer himself, many associations have found it necessary to refuse any liability for damaged goods or wrong counts after the goods have left the warehouse door.

### CRITICAL SUMMARY

It is obvious that the cost of delivery to the association is less than to a competing service wholesaler only if the cooperative delivers but makes fewer deliveries per week, if the membership is limited to the city trade where, without the usual long-distance hauls, the average cost per delivery may be less, or if the cooperative forces all or a part of the retailer members to call for the goods.

**Effect on Manufacturer and Wholesaler.**—The manufacturer and wholesaler are not directly affected by the manner in which the function of delivery is performed, except in so far as the service wholesaler may be left to serve those retailers who request

<sup>1</sup> Many so-called “associations” have branches (see p. 5).

<sup>2</sup> The Cincinnati Wholesale Grocery Co., Cincinnati, Ohio, maintains a warehouse branch at Dayton, Ohio.

excessive delivery service or who are most distant from any common source of supply. It is apparent that in the drug trade, the cooperative does not curtail, to any extent, the number of deliveries which it makes to its members. In some cases, it appears to give more service than the wholesaler. A total of 102 members from four cooperative houses state that they receive as many deliveries each week from the cooperative as they do from the service wholesaler. Fifteen report a greater number by the cooperative.

As many as 65 of these same retailers, in reporting what they liked best about their own association, reply "service."<sup>1</sup> This term includes more than delivery service, yet it does include delivery.

**Number of Deliveries.**—There is a tendency for grocery cooperative associations, however, to limit their delivery service. It is difficult to say to what extent more than two deliveries per week are necessary, for too many deliveries can be just as expensive as too few.<sup>2</sup>

Abbott,<sup>3</sup> in studying conditions in Philadelphia in 1919, prior to the failure of the Girard Grocery Company, concludes that the service wholesalers offer better delivery service. "The regular wholesalers will deliver as many orders as a man may want in a week." Service wholesalers in the grocery field, however, now more commonly limit deliveries to two or three a week.

**Location of Membership.**—The territories of drug and grocery cooperatives average about the same. About 34 per cent of the membership of 10 associations in the drug trade are located outside the city in which the cooperative has its warehouse. For 22 grocery cooperatives, this figure is 35 per cent. It is customary in the drug trade, under these circumstances, for the "country" retailer to pay the delivery expense.<sup>4</sup> In the grocery trade, however, where deliveries are less frequent, there is a greater tendency for the cooperative to deliver greater distances. One association reaches all of its scattered membership once a week. Another delivers "within a radius of 35 miles." Such action is taken for competitive reasons, however, and in such

<sup>1</sup> For complete table, see Appendix J.

<sup>2</sup> Chain grocery stores commonly make one delivery of staples a week to each store.

<sup>3</sup> ABBOTT, "Competition and Combination in the Wholesale Grocer Trade in Philadelphia," p. 65.

<sup>4</sup> So reported by 28 cooperative members of four associations.

cases neither the cooperative nor the service wholesaler enjoys any real advantage.

**Shifting of Function.**—The retail member, however, is called upon to assume, in particular instances, the entire function. In such cases, the cost of performance may be greater or less, depending upon individual circumstances. If the delivery equipment of the retailer is idle from eight to ten in the morning, the operating cost of picking up an order of goods at the warehouse should be less than the operating cost and overhead upon the association equipment necessary to perform the same work. If, in the second place, the time of an employe or of the proprietor himself is of little enough value so that its best use is in collecting an order of merchandise rather than in managing, selling, or working at the store, then it is economy so to collect. Cash-and-carry wholesale houses are based upon this principle and are utilized, among others, by retailers who leave members of their family or employes in charge of their businesses while purchasing goods in the wholesale market. From an economical point of view, however, a fleet of trucks, each truck operated over a given route at regular intervals, should perform this function of delivery with the greatest economy for all concerned.

**Adequacy of Delivery Service.**—Finally, it has been said by some that the delivery service offered by cooperatives is not so satisfactory as that given by the service wholesaler. While this is only an operating problem, it is important, for presumably the manager might feel that because his was a cooperative organization, equal competitive service was not necessary. Of the 103 retail druggists who report that the association delivers all their orders, 99 state that the delivery service itself is as satisfactory as that offered by any competing service wholesaler, and 27 add that the delivery service is better. Only 3 out of 107 suggestions offered by 101 retailers for improvements in their own associations concern quicker delivery service.<sup>1</sup> It is quite possible that in the grocery trade, where deliveries are made less often, are larger, and include many heavy and bulky items, the contrast in favor of the service wholesaler might be greater. One large association, for example, sends the following rules, among others, to its members:

Our prices are net for *delivery on payment* within 3 miles of warehouse. Beyond this limit, an additional charge of 1 per cent to cartage. We

<sup>1</sup> For complete table, see Appendix I.

make a service charge of one-fourth of 1 per cent for carrying goods into store.

Only one order can be accepted for delivery each week (no additions). Call orders Friday and Saturday only, not more than one in a week and must be placed 1 hour before closing time. Cash plus 2 per cent.

Errors in delivery must be *reported same day*.

One-fourth of 1 per cent credit is allowed quarterly to reimburse you for losses on swells, shorts, and breakage. Members leaving the association during the quarter will forfeit this credit.

To insure prompt delivery, your order must be in our office within a specified time. This time-limit information given on request.

Such a set of rules, however, is not common. Only a strong and well-established association can be so strict, and even in such cases members become critical about what they call the "autocratic" attitude of the "people up at the office."

**Conclusion.**—In conclusion, cooperative associations appear to effect no economies in performing the function of delivery. In those cases where an association requires the retailers to perform the function for themselves, it does reduce its own expenses but at the same time increases those of the membership. Service in the drug trade appears to be adequate. In the grocery trade, the fact that it is somewhat curtailed leaves an opening wedge for dissatisfaction and a competitive advantage for service wholesalers.

legitimate wholesalers, entitled to the regular wholesale discounts and treatment.<sup>1</sup>

TABLE XXV.—SELLING POLICY OF 73 MANUFACTURERS AFFECTING COOPERATIVE RETAIL BUYING ASSOCIATIONS

	Total, per cent	Drug, per cent	Grocery, per cent
Total.....	(73) 100	(47) 100	(26) 100
Sell to cooperatives.....	(56) 77	(35) 74	(21) 81
Do not sell to cooperatives.....	(17) 23	(12) 26	(5) 19

It is true, however, that some manufacturers still refuse to recognize these distributors as wholesalers. The following correspondence between a sales manager and one of his salesmen, although written a number of years ago, is typical:

TO THE SALESMAN: I hate to interfere with one of your hundred-dollar buyers, but we do not want to let this buying-club situation get away from us.

The——Company has a perfectly legitimate kick as far as the matter of selling to a retail buying club is concerned, and we sympathize fully with their viewpoint and ought to take every possible step to correct it.

As regards their contention that we should not sell direct, this is, of course, foolish, because they know perfectly well that we have to

<sup>1</sup> During the formative period, practically all associations had difficulties, as the following table indicates:

DIFFICULTIES EXPERIENCED BY COOPERATIVE RETAIL BUYING ASSOCIATIONS IN SECURING WHOLESALE DISCOUNTS

	Total		Drug		Grocery	
	Difficult	Not difficult	Difficult	Not difficult	Difficult	Not difficult
At time of organization..	33	5	9	1	24	4
At present time.....	2	35	0	10	2	25

The following are typical reasons for recognizing cooperatives: "Retail grocers' associations and cooperative buyers are growing at such a rate that we believe it is good business to sell them. If we did not, some one else would." "We sell practically all so-called 'mutuals.' They have developed such a large volume of business that the independent manufacturer must recognize them or suffer serious loss of business."

sell direct, and we have so satisfied everybody with whom we have discussed the matter.

When you are in—, please arrange to break up this club by selling the individual members of it, and if they will not buy on the grounds that they can buy smaller quantities through Mr.—, it will be necessary for us to cut Mr.—off.

The reason that I have not specifically answered the—Drug Company's request for a statement as to whether we would sell Mr.—or not in the future is because we cannot legally agree with any concern not to sell another concern.

To THE SALES MANAGER: FAVOR of the tenth received, and in same get instruction the next time I am in—to do what I can to break up the—Buying Club. This I will do with great gusto. The—Drug Company's kick is legitimate, and we will do well to stick to the good big buyer and force—, the member, to buy direct from the house in the \$30 deals or more. The buyer, Mr.—, never intimated to me to cut out the club's buying when in—. The order sold to the—Club was on Dec. 9, and gross amount \$121; no doubt but this, distributed among local druggists, loaded them up, so the—Company was at a disadvantage in unloading.

Will drop—a line informing him I have received instructions not to sell any buying clubs in—or any other towns or city.

To THE SALESMAN: With reference to your letter of Feb. 12 relative to the—Buying Club and the—Drug Company, I note two paragraphs in which you say that you have written the—Company saying that you had received instructions not to sell buying clubs.

If you will note the carbon of my letter to the—Drug Company, you will note that I was very careful not to say that we would do anything special with reference to this. I simply stated that I was taking the matter up with our representative in the territory. There is a very sound reason for this, namely, that we cannot under the law agree with any one buyer not to sell to any other buyer.

It is all right for you to tell Mr.—personally, and where there are no witnesses, almost anything you like about our policy, but it is indiscreet and possibly extremely dangerous to put into writing any statements relative to our policy with reference to any class of customer, especially if it is a customer against whom the other man has complained. Any statement as to our policy relative to price cutters, buying clubs, syndicate buyers, etc., had better be made verbally or else left to the office.

I know that you will appreciate the spirit in this suggestion and that no criticism is intended of your action. I am simply cautioning you that this whole matter is a very ticklish one, and one to be handled with the utmost care.<sup>1</sup>

**Refusal to Sell to Cooperatives.**—A number of manufacturers indicate a preference for service jobbers exclusively. The

<sup>1</sup> Exhibits in a case before the Federal Trade Commission.

reason for this policy may be explained by the following statement: "As between the two, service jobbers can do more for us, and apparently we can't have both." On the other hand, it may be explained as follows: "The buying power of the cooperative is negligible and would not compensate for loss of business through regular wholesale channels."<sup>1</sup> The fear of manufacturers that they cannot sell to the service jobber and the cooperative association at the same time is best explained in the following letter from the sales manager of a large company distributing through hardware stores.

In the distribution of our goods we are concerned in getting them into the hands of as many dealers as possible, and we do not care whether or not the American Purchasing Company distributes the goods; but of course, we cannot afford to sell this concern direct or to have any of the jobbers know that we are aware of goods going to them; and we therefore suggest that you get in touch with the—Hardware Company and see if you cannot get them to have this car shipped to Pensacola instead of Savannah, and let them dispose of it as they see fit from Pensacola.<sup>2</sup>

**Cause of Some Refusals.**—In a majority of cases, the manufacturer who refrains from selling to the cooperative association does so not because he does not desire to sell, but because of the illwill or fear of illwill from wholesalers who still purchase the bulk of his merchandise. Competition in the past has been very active at times, in attempting to force the manufacturer not to sell to cooperatives.

An example in the grocery trade is interesting: A food manufacturer entered a certain large Middle-western city for the first time about 1923 and, with the aid of missionary salesmen, covered the city thoroughly, using both service and cooperative wholesalers as distributors. On one trip, the buyers at the service wholesale houses began to turn down the branch manager with monotonous regularity. Finally, one said, "You are selling the (naming a cooperative association) aren't you?" The official admitted that he was. The buyer continued: "We decided at our last meeting to throw your stuff out until you

<sup>1</sup> This same divided attitude of manufacturers toward cooperative retail buying associations is found in a report of Assoc. Nat. Advertisers, Inc., July, 1926.

<sup>2</sup> Brief of counsel for respondents, Federal Trade Commission *vs* Southern Hardware Jobbers Assoc., p. 75.

cut them off." The manager telegraphed his president, who immediately came to the city; the two together with their corporation lawyer immediately called upon this buyer, who refused to repeat his explanation. When the secretary of the association was notified, he called a meeting and the previous stand was rescinded. This manufacturer was restored to good standing and now enjoys a good business with all the association members, although this cooperative continues to offer him the best market.

In 1922, Gilbert Montague said:

. . . the resentment on the part of the line wholesalers . . . is very considerable, and concerns like the Mennen Company are put in a most unfortunate position . . . The whole issue is this case . . . is going to be as to exactly what the Mennen Company and all other manufacturers similarly situated are to do . . . when they stand confronted by the old-line wholesalers, on the one hand, and these new companies coming in, on the other. Our relation is that we desire to be friendly to both.<sup>1</sup>

**"The Four Horsemen."**—As late as 1925, the National Wholesale Druggists Association appointed a committee, popularly called in the trade "The Four Horsemen," which made a flying trip throughout the country, calling upon manufacturers of drugs and druggists' sundries, urging them not to sell to cooperatives. The committee was partially successful, though many firms refusing to sell to cooperatives later placed them on the wholesale list again. Since that time, however, conditions have become somewhat more cordial in this trade.<sup>2</sup>

<sup>1</sup> Federal Trade Commission *vs.* Mennen Co., *Trans. Rec.*, p. 78.

This attitude of wholesale competitors has been expressed in the following cases before the Federal Trade Commission: Federal Trade Commission *vs.* Southern Hardware Jobbers Assoc., *et al.*, 4 F.T.C.D., 428; Federal Trade Commission *vs.* Atlantic Wholesale Confectioners' Assoc., *et al.*, 4 F.T.C.D., 466; Federal Trade Commission *vs.* Wis. Wholesale Grocers Assoc., *et al.*, 7 F.T.C.D., 489; Federal Trade Commission *vs.* N. Dak. Wholesale Grocers Assoc., *et al.*, docket 1085; Federal Trade Commission *vs.* Ark. Wholesale Grocers Assoc., *et al.*, docket 1232; and Federal Trade Commission *vs.* Wholesale Grocers Assoc. New Orleans, *et al.*, docket 1343.

<sup>2</sup> The Federal Wholesale Druggists Assoc. (cooperative) was unanimously elected to membership in the Nat. Drug Trade conference Dec. 9, 1927. The associations represented at this meeting were Amer. Pharm. Assoc., Retail Druggists; Amer. Drug Manufacturers; Amer. Coll. of Pharmacy; Nat. Wholesale Druggists; Proprietary; Amer. Pharm. Manufacturers; and Nat. Assoc. of Boards of Pharmacy.



It should not be forgotten, however, that any manufacturer has a right to refuse to sell a cooperative association or all associations, not on a basis that they are cooperatives but on a basis that the manufacturer has a right to select his customers.

The following opinion was laid down in the case of the Great Atlantic and Pacific Tea Company against the Cream of Wheat Company:

Before the Sherman Act, it was the law that a trader might reject the offer of a proposing buyer, for any reason that appealed to him; it might be because he did not like the other's business methods; or because he had some personal difference with him, political, racial, or social. That was purely his own affair, with which nobody else had any concern. Neither the Sherman Act, nor any decision of the Supreme Court construing the same, nor the Clayton Act, has changed the law in this particular. We have not yet reached the stage where the selection of a trader's customers is made for him by the government.<sup>1</sup>

**Exclusive Distribution.**—Since the membership of a cooperative is limited and since, with very few exceptions,<sup>2</sup> cooperatives do not actively solicit non-members, a manufacturer distributing through exclusive wholesale agencies should not appoint an association.<sup>3</sup>

**Selective Distribution.**—Likewise, manufacturers who distribute through selected agencies will hesitate to appoint a cooperative association.

Selective distribution is the direct result of growing attempts to apply cost accounting to sales.<sup>4</sup> Attention of the business man has been directed to this mode by analyses of the census of distribution of 1926. This census shows that in 11 cities of the United States, 28 per cent of the independent merchants did only 1.65 per cent of the dollar volume of retail business and that over 45 per cent of the merchants did slightly more than 5 per cent of the business. At the other extreme, 14 retail depart-

<sup>1</sup> Great Atlantic & Pacific Tea Co. *vs.* Cream of Wheat Co., 227 Fed. 46, 141 CCA 594, 1915.

<sup>2</sup> The Washington (D. C.) Wholesale Drug Exchange is an exception. There is no other drug wholesaler located in the city.

<sup>3</sup> The managers themselves do not favor such agencies. The substance of a discussion at the 1927 annual convention of the Federal Wholesale Druggists Assoc. was that those products which had the widest distribution had the greatest demand.

<sup>4</sup> See HILGERT, "Cost Accounting in Sales," as a first attempt at such application.

ment, furniture, and clothing stores did over 18 per cent of the dollar volume of business, while 91 stores or 0.26 per cent of the total number did slightly less than 30 per cent of the total volume.<sup>1</sup>

These figures mean that 28 per cent of the retailers each did less than \$5,000 a year or about \$96 a week. According to Cherington, this would net such a merchant \$2.40 profit. Slightly more than 75 per cent of the retailers had total annual sales of less than \$25,000.<sup>2</sup> In many trades, 10 per cent of the merchants did over 50 per cent of the business.<sup>3</sup>

Similar figures are not available for wholesale houses, but the same general tendencies should prevail with them. The realization of the significance of such statistical data has led to the teaching and practicing of selective distribution. As one manufacturer states: "In one of our branch houses, we found that 25 per cent of the customers bought 81 per cent of the total volume for the branch. In another branch, 25 per cent of the customers bought 78 per cent of the total volume."<sup>1</sup> This same manufacturer reports that "a manufacturer of cos-

<sup>1</sup> N.A.T.M.A. Bull. 6, ser. 1928.

<sup>2</sup> See *Retail and Wholesale Trade*, pp. 178 *et seq.*, Chambers of Commerce of U. S.

<sup>3</sup> The following table was prepared by Dr. Paul T. Cherington:

PERCENTAGES OF ALL STORES, BY TOTAL ANNUAL BUSINESS  
From Distribution Census (11 Cities)

	Below \$5,000		Below \$50,000	
	Number of stores	Total sales	Number of stores	Total sales
All stores.....	28.06	1.68	88.60	29.47
Art and antiques.....	34.63	3.02	90.10	44.94
Automobile accessory.....	32.67	2.81	87.16	39.94
Bakery.....	16.07	1.88	94.91	60.41
Boot and shoe.....	26.64	1.83	87.52	40.90
Cigar.....	41.39	8.08	97.87	78.44
Clothing and furnishings (men).....	20.00	1.01	81.53	24.82
Confectionery.....	55.00	11.80	98.79	82.26
Custom tailor.....	49.49	3.90	91.22	32.88
Dry goods and notions.....	30.92	2.62	91.75	38.97
Fruit and vegetables.....	35.08	5.92	95.91	70.37
Gasoline and oil stations.....	32.42	4.82	95.75	67.33
Grocery and delicatessen.....	27.42	3.96	94.34	67.68
Millinery.....	39.72	5.60	93.30	54.63
Motorcycle and bicycle.....	55.26	9.73	92.98	52.13
Photographers' supply.....	48.45	4.89	87.63	35.16
Stationery.....	32.92	2.16	83.65	24.11

metics recently found that 19 per cent of his customers bought 80 per cent of his volume. A flour manufacturer analyzed his figures and found that over 50 per cent of his volume in each of several markets was purchased by 12 per cent of his accounts."<sup>1</sup> With such facts at hand, "100 per cent distribution" is rapidly losing its virtue, and selective distribution is taking its place.

**Buying from Service Wholesalers.**—Two main reasons account for the fact that purchases from wholesalers are as much as 7 per cent.<sup>2</sup> (1) The cooperative is forced to go to the service wholesaler for goods sold under an exclusive agency plan. Wholesalers may find it cheaper to sell to the central organization at a discount than to solicit its members for a few items. (2) Service wholesalers are necessary as sources for "outs" and "fill-ins." While these items may be purchased from chain stores, short-line jobbers, or cash-and-carry jobbers, such sources are not always available.

In spite of the general attitude between service wholesalers and cooperatives, there is excellent cooperation in individual cases. One large successful wholesaler has given solicited advice to the managers of at least two cooperatives and has lent a considerable amount of money to one. Several wholesalers have helped cooperative associations organize and have acted as a warehouse for them during the formative period, sometimes without much appreciation upon the part of the cooperating retailers.<sup>3</sup>

**Manufacturing by Cooperatives.**—A third source of "purchases," considering that word in the technical sense as purchases by the wholesale house itself, is its own manufacturing or packaging and labeling department. No grocery cooperative is known to have such a department, although it is somewhat common in the drug field. The Hye-Test line of products packaged by the Northwestern Drug Company and the Druco line of the Philadelphia Wholesale Drug Company are examples. The transition from the period when each druggist purchased

<sup>1</sup> SMITH, GUY C., *Selective Selling As a Means of Reducing Marketing Costs*, Amer. Management Assoc., Marketing Executives' ser. 55.

<sup>2</sup> All so-called "cooperative buying associations" which regularly use a service wholesaler as a source of supply have been excluded from this portion of the study.

<sup>3</sup> One successful service wholesaler says: "I doubt if there are many cooperative retail buying associations in operation today which were not encouraged at one time during early days by a service wholesaler."

chemicals in bulk and sacked or bottled them as demanded, at no great profit to himself, to that of the period when the manufacturer did it for him, but at no great increase in the retailer's profit, practically forced many wholesalers, including cooperatives, to open such a department. The associations make a good net profit on this department, and the retailer gets a much more satisfactory mark-up without the labor and inconvenience of the old system.

The members of one association are contemplating the possibility of furnishing the money for a cooperative manufacturing organization to manufacture common pharmaceuticals for the trade at large. No definite plans are formulated as yet. The cooperative association, like the service wholesaler, however, is limited in its opportunity to become a manufacturer by the fact that its major profits depend upon its ability to distribute successfully.

**Wholesale List Price.**—The majority of purchases made from manufacturers are made at the regular wholesale list. While it cannot be expected that manufacturers would announce publicly that they gave secret discounts to cooperatives, the common view among the managers of cooperatives themselves is that cooperatives receive the same quotations given service wholesalers, with the exceptions already noted, certainly no better. The following table bears out this conclusion:

TABLE XXVI.—PRICES MANUFACTURERS QUOTE COOPERATIVE RETAIL BUYING ASSOCIATIONS COMPARED WITH THOSE QUOTED SERVICE WHOLESALERS

	Total	Drug	Grocery
Total.....	56	21	35
Cooperative price lower.....	2	1	1
Both prices equal.....	49	17	32
Cooperative price higher.....	3	2	1
No answer.....	2	1	1

**Stock of Merchandise.**—Another seeming problem concerns the amount and variety of merchandise which the cooperating association carries. The best authorities<sup>1</sup> state that the aver-

<sup>1</sup> Distribution through the Drug Trade, etc., Nat. Wholesale Druggists Assoc., p. 17, 1925.

Murray Breeze, editor of *Amer. Druggist*, speaks of "the average wholesaler handling about 50,000 items . . ." *Amer. Druggist*, p. 12, July, 1927.

age service drug wholesaler carries from 45,000 to 60,000 separate items.<sup>1</sup> One buyer for a large service drug house states that a wholesaler doing \$9,000,000 annually in that trade would carry 75,000 items. The *Red Book* for April, 1928, contains a list of about 70,000 items. A more representative figure for individual houses of different sizes is given in the following table. The lack of an adequate sample among the cooperatives and the handicap of a composite estimate, even though given by several outstanding service wholesale druggists, is recognized, though the figures are roughly comparable. In three individual cases, the number of items carried by cooperatives in the drug trade is small. The reported stock of the other four, however, approximates those of the service wholesaler.

TABLE XXVII.—COMPARISON OF MERCHANDISE STOCK IN THE DRUG TRADE BY ITEMS CLASSIFIED ACCORDING TO SALES VOLUME

	Service wholesaler	Cooperative association
Less than \$500,000.....	(5) 15,000	(2) 20,000
\$500,000 to \$999,000.....	(5) 20,000	
\$1,000,000 to \$2,999,000.....	(5) 25,000	(4) 20,000
\$3,000,000 to \$4,999,000.....	(5) 25,000	
\$5,000,000 and over.....	(5) 30,000	(1) 18,000

In the grocery trade, one authority<sup>2</sup> states that the average service wholesale grocer will carry 2,000 items, while a larger one will handle between 3,000 and 4,000. Figures secured in a similar fashion to those for the drug trade indicate that there is a

TABLE XXVIII.—COMPARISON OF MERCHANDISE STOCK IN GROCERY TRADE BY ITEMS CLASSIFIED ACCORDING TO SALES VOLUME

	Service wholesaler	Cooperative association
Less than \$500,000.....		
\$500,000 to \$999,000.....	(5) 2,200	(6) 885
\$1,000,000 to \$2,999,000.....	(5) 2,300	
\$3,000,000 and over.....	(5) 3,400	(3) 1,700
	(5) 4,000	(1) 1,700

<sup>1</sup> "Item" applies not only to different lines, brands, and numbers but also to different sizes of the same number.

<sup>2</sup> John Meyer, secretary, N. Y. Wholesale Grocers Assoc.

greater difference here. The smaller grocery cooperatives carry fewer items, while even the stocks of the larger ones do not appear to be so complete as those of the service wholesaler.

These figures are verified, to an extent, by the following table containing the report of association managers themselves. A larger proportion of those in the grocery trade report a lower figure, although several in both estimate their stock to be 100 per cent of the stock of a service wholesaler.

TABLE XXIX.—PERCENTAGE OF LINES COMMONLY CARRIED BY SERVICE WHOLESALERS WHICH CAN BE SUPPLIED BY COOPERATIVE RETAIL BUYING ASSOCIATIONS

	Total	Drug*	Grocery†
Total.....	39	11	28
Percentage:			
50.....	1	0	1
60.....	1	0	1
65.....	1	1	0
70.....	0	0	0
75.....	2	0	2
80.....	0	0	0
85.....	3	1	2
90.....	5	1	4
95.....	6	4	2
99.....	1	0	1
100.....	14	3	11
"Practically all".....	3	0	3
No answer.....	2	1	1

\* Some of the lines not carried by at least one association in the drug field are candy, cigars, liquors, sundries, alcohol, and exclusive and unobtainable lines.

† Some of the lines not carried by at least one association in the grocery field are candy, cigars, fruits, vegetables, cereals, drugs, canned goods, a variety of small items, and trade-marked and exclusive wholesale lines.

**Stock Control.**—Small stocks can be both an advantage and a disadvantage. They can be an advantage if the small stock includes not only all the fast-moving items but also the slower-moving necessities for which there is an absolute demand though at irregular and possibly infrequent intervals. The problem is not one of eliminating slow-moving items but one of reducing them to the point at which the consumer can secure what he

needs when he needs it. The difficulty is in determining in advance *what* the consumer really needs and *when* he needs it.

Although the consumer has a number of needs, some of which are going to be satisfied through purchases in the immediate future, he himself does not always know exactly what brand of a given product he will purchase. The retailer, wholesaler, and manufacturer have an increasing problem, therefore, in anticipating this unstable demand, which is based not only upon the merits of the individual product but also upon advertising, personal convenience in purchase, friendship for and attitude of the retailer or one or more of his employees, attractiveness of the product in the retail store, ebb and flow of fashion, and price.

A product which is not in demand may become a slow seller because it has no merits in the eyes of the consumer, because it is regularly desired by only a small portion of the consuming public, or because it is needed at infrequent intervals by a larger proportion of the public. In the case of the first type of product, it should be eliminated and the public informed when necessary of its lack of merit. In the second and third cases, however, such products have a legitimate demand which ought to be satisfied. Some customers will call for them. The result is that the retailer has to balance the goodwill of such customers against the extra cost of handling such products.<sup>1</sup>

The policy of carrying fast sellers and refusing to carry slow sellers involves more: Will the fast seller today be a fast seller tomorrow? And will all the slow sellers of today be slow sellers tomorrow? Some lines and brands come into prominence and then disappear. While it is difficult to tell how long a popular product will remain popular, it is even harder to anticipate the popularity of a product which is just being introduced to the trade.

The problem, then, is not so much one of knowing what lines to carry and which products to refuse or eliminate from stock, but rather what products to buy in large quantities at frequent intervals, which ones to buy more infrequently in small volume, as well as which ones not to carry at all. The problem of the

<sup>1</sup> The Druggists Res. Bur. in *Bull.* 5 A contains the following statement: "While there are many extremely slow sellers which a druggist has to carry to accommodate professional and lay patrons, it is a decided advantage to know for sure what these items are, so as to keep investment and risks at a minimum and profits at a maximum."

multiplicity of lines and brands exists.<sup>1</sup> Of that there is no doubt. But the solution is not only one of selecting merchandise on the basis of quantity buying and stock turn. It involves, also, a study of the different needs of the consumer, an analysis of the characteristics of these needs, and the cost of supplying each type of need satisfactorily.

While it is true, therefore, that the cooperative retail buying association does reduce the expense of operating a wholesale house by reducing the number of items which it carries, it is also true that such reduction is not a net saving but, in part, is shifted to other types of wholesalers who carry slow-moving merchandise and upon the retailer who must look elsewhere for such stock. The successful retailer must be sensitive to the demands of the ultimate consumer.<sup>2</sup>

### CRITICAL SUMMARY

The function of buying could be performed more economically by the cooperative association only (1) if each buyer handled a larger volume of business or if the same quality of buyer were hired at a lower expense, (2) if buyers for cooperative associations

<sup>1</sup> VARIATIONS IN PROPORTION OF SALES BY TWO DRUG STORES

	Percentage of stock on hand selling slowly		Percentage of sales made from slow selling stocks	
	City residential	Suburbs	City residential	Suburbs
Line of toilet goods:				
Hair.....	70	69	52	35
Shaving.....	50	60	14	17
Dental.....	33	47	5	8
Facial.....	73	79	49	43
Hand.....	77	72	27	33
General.....	67	71	33	20
All lines.....	63	68	26	20

Druggists Res. Bur., *Bull.* 5A, 5B.

<sup>2</sup> The manufacturers, wholesalers, and retailers are giving more attention to the real needs of the ultimate consumer. They are also taking steps to find out the cost of satisfying those needs. As a result, all distributors will be in an increasing position to select between products which are and those which are not needed. Market analysis and cost accounting in sales are two subjects currently popular.



were able to secure extra or secret discounts, or (3) if they were able to satisfy their trade with smaller average stocks of merchandise. Since even the largest service wholesalers and cooperative associations do not hire more than three or four buyers, the difference here cannot be great, at best.<sup>1</sup>

It is, also, probably true, in the absence of more definite data, that the salary of a man hired as a buyer is approximately equal in both types of distribution.

**Prices to Cooperatives and Service Wholesalers.**—There is no reason to believe that cooperatives pay either lower or higher prices than do service wholesalers. The inability of associations, however, to offer their members certain merchandise, either because the supplier refuses to sell to a cooperative association or because the association follows the policy of not carrying a line comparable to other wholesale distributors, results in a reduction in cost only if the retailer, in turn, does not have to seek elsewhere for such goods. While the small percentage of cases in which a supply is refused has probably been reduced to a minimum, this minimum will never be eliminated so long as the competitors of cooperative associations dominate the market. This difficulty was given as one contributing cause for the failure of a grocery cooperative house in Oklahoma, early in 1927. It is, also, one reason given for the recent change in the operation of the Hoosier Wholesale Drug Company, Indianapolis, a cooperative retail buying association.

For whatever reason, if a cooperative association does not carry a stock of merchandise large enough to satisfy the needs of

<sup>1</sup> From the opinion of ten service wholesalers, five in each trade, and the statistics available, the following table is constructed:

NUMBER OF BUYERS PER ORGANIZATION CLASSIFIED ACCORDING TO SALES VOLUME

	Drug		Grocery	
	Service	Cooperative	Service	Cooperative
Less than \$500,000.....	1	1	1	1
\$500,000 to \$999,000.....	1	...	1	1
\$1,000,000 to \$2,999,000.....	2	1.3	2.3	1.5
\$3,000,000 to \$4,999,000.....	3	...	3.5	3.5
\$5,000,000 and over.....	4	4	3.5	3.5

its retailer members, those members have to turn elsewhere for part of their supplies, and in thus forcing them to do so, the association is shifting part of the regular wholesale cost to others, presumably to the service wholesaler. That this is done, especially in the grocery trade, is indicated by the statistical evidence. That the merchandise which is not carried by the association is slow-moving, low-profit products is evident from the very organization of the associations themselves. In the performance of this function, cooperative associations are similar to cash-and-carry wholesalers, although not to the same degree. It is not presumed that the stocks of service wholesale houses are complete, but they are more complete than those of the average association.

Even though the stocks were identical, members of associations would be at a disadvantage, since it has been shown that unattached retailers buy from a number of suppliers, while members of cooperative associations, to receive the full benefit of such membership, must concentrate their purchases.

Although, in the drug trade, stocks appear to be somewhat more comparable, over 100 out of 142 retail druggists, members of four associations, give inadequate stocks as one reason why they do not buy all their merchandise from this association.

TABLE XXX.—REASONS WHY RETAIL DRUGGISTS DO NOT BUY ALL THEIR MERCHANDISE FROM THEIR ASSOCIATION

Total retailers reporting.....	142
Total answers.....	203*
Inadequate stock of merchandise.....	139
"I cannot obtain all items".....	95
"Ours".....	24
"Some manufacturers will not sell to the association".....	14
"No one organization has full line".....	6

\* For complete table, see Appendix K.

TABLE XXXI.—IMPROVEMENTS DESIRED BY RETAIL DRUGGISTS IN THEIR COOPERATIVE ASSOCIATION

Total retailers reporting.....	101
Total answers.....	107*
Stocks.....	39
"More complete stocks".....	35
"Better lines of merchandise".....	2
"More nationally advertised merchandise".....	2

\* For complete table, see Appendix I.

Further than this, over 35 out of 101 of this same group refer to more complete stocks when giving improvements which they desire in their associations.

Thus, it would appear that not even in the drug trade are stocks so complete as members would like.

**Conclusion.**—Thus, by carrying small stocks, the association again shifts part of the ordinary performance of the functions of wholesaling to other distributors. The manufacturer is not affected. The retailer is affected only to the extent of inconvenience, for while the association may be able to justify limited stocks to its member customers, the members, in turn, have no such hold on the consumer, who is at liberty to demand whatever he wants. This shift primarily affects competing wholesalers, particularly service wholesalers. Their presence makes short lines possible. If they did not exist, cooperatives would have to carry that slow-moving merchandise which the public persisted in requiring. Thus, while not so true in the drug field, one of the important arguments for the cooperative in the grocery field—the carrying of small stocks—does not represent a true saving but merely a saving to the cooperatives which is largely if not entirely offset by increased expenses of competitors, expenses which cannot be eliminated at present.

## CHAPTER IX

### STORAGE

By definition, all cooperative retail buying associations buy and carry a stock of merchandise for delivery to members.<sup>1</sup> Practically without exception, the offices of the association are located at the warehouse itself. Out of 11, 9 drug cooperatives own their buildings, many of which include a large display room.<sup>2</sup> In no case has the purchase of the building been one of the immediate objectives when organizing. With growth and an increasing need for space, funds have been established. More commonly a building has been purchased and paid for with cash raised through the sale of preferred stock, bonds, or from money borrowed privately, or from the banks. In only one case were the land and building, which was remodeled, purchased largely from earnings.

In the grocery trade, the tendency is to lease warehouse space, although over one-third of the 28 associations own their buildings. The most probable reason for the difference in the trades lies in the average age of cooperative associations—an average of 11½ years for 28 grocery cooperatives and 22 years for 11 drug cooperatives.

In most instances, the buildings are located in the wholesaling sections of the city and employ adequate mechanical facilities for handling merchandise. The method of handling stock upon its arrival and during the time it is carried on the shelves of the wholesale house is the same as that used by service wholesalers themselves.<sup>3</sup> No cooperative manager professes to be able to

<sup>1</sup> Some so-called "cooperative associations" do not have a warehouse but depend upon a service wholesaler who supplies the merchandise, often at cost (see p. 163).

<sup>2</sup> The Philadelphia Wholesale Drug Co. has a large sundry display room with six full-time salesmen.

<sup>3</sup> One large grocery association owns a warehouse with four floors and basement, comprising 106,000 square feet; this area includes five elevators, one three-box refrigerating plant, a five-car siding, and stalls for 18 motor trucks.

operate his warehouse at a lower cost than does the manager of any other type of wholesale house, except in so far as the efficiency of the management is concerned. Recognizing this condition, many of them, who are unacquainted at the outset with the problems of wholesale distribution, hire a former warehouseman of some service wholesaler.

**Financing Warehouse Stocks.**—It is not customary for cooperatives in either trade to carry stocks in branch warehouses. The average amount of stock which a particular cooperative carries depends almost entirely upon the number of members and the amount of money which they furnish and not upon the variety of stock required by the individual member. Outside the sale of merchandise itself, the two most common sources of each used in the purchase of merchandise are funds from the sale of common and preferred stock and money borrowed from the local bank. Such a practice of using money secured from the sale of stock, while entirely satisfactory at the outset, may become dangerous after several years, particularly if the association operates on a narrow margin and does not build up reserves but returns all of each yearly surplus. On the other hand, if the amount secured from an additional member approximately covers the cost of the increased amount of stock necessary to cover the purchases of the new member, such sale of common stock from year to year is justified. The sale of preferred stock, the use of demand loans from members

TABLE XXXII.—METHODS USED TO FINANCE MERCHANDISE STOCK OF COOPERATIVE BUYING ASSOCIATIONS

	Total	Drug	Grocery
Total methods given.....	47*	14	33
“Capital investment”.....	22	8	14
“Bank credit”.....	13	3	10
“Demand loans from members and friends”.....	4	0	4
“Cash deposits of members”.....	3	1	2
“Deferred merchandise dividends”.....	1	1	0
“Sale of preferred stock”.....	1	1	0
“Funded debt”.....	1	0	1
“Reserve account”.....	1	0	1
“Loans from management”.....	1	0	1

\* Several mentioned the most obvious source, i.e., the sales of the merchandise itself.

and friends, and loans from the management indicate a weak financial policy.

**Broken Packages.**—One general selling policy, more common with the cooperatives in the drug field than those in the grocery trade, is that of selling  $\frac{1}{12}$  dozen at dozen-lot prices. In such cases, the broken-package room and its additional expense becomes an important item. One large cooperative in this field, has four stock floors; two of these are filled with unbroken packages and two others with unit packages. Although no figures are available, cooperative associations do more broken-package business than do service wholesalers. They encourage broken-package business, because such a practice enables their members to carry smaller stocks.<sup>1</sup> The manager of one association states that any one of his members can carry a just as good assortment of stock with \$2,500 invested in it as an outsider can with \$3,500.<sup>2</sup> While, on the one hand, this practice does decrease the amount of goods which a retailer is forced to carry in his own stock in order to secure the lowest price, it does, at the same time, materially increase the cost of storage at the central warehouse.

This practice of breaking packages is not so common in the grocery trade, where practically everything sold by the association goes out in the original packages or, at best, occasionally in half-dozen or dozen lots. Bulky goods sold in 100-pound bags are sometimes sold in smaller quantities. The general practice, here, however, is apparently more in accord with that of the service grocery wholesale house, involving no extra expense and offering no extra service.

### CRITICAL SUMMARY

The cost to the cooperative association of carrying a stock of merchandise appears to be about the same as that of a service wholesaler. In the first place, the same type of location is needed and is actually used, in most cases. In the second place, the

<sup>1</sup> Out of 121 retail druggists, 8 state that the ability to secure quantity prices in  $\frac{1}{12}$ -dozen lots is the thing they like best about their cooperative association. For complete table, see Appendix J.

<sup>2</sup> Out of 152 retail druggists, 4 state that they joined because, as members of a cooperative association, they could carry minimum stocks and still satisfy all the requirements of their customers. Out of 121 retail druggists, 6 report that the greatest advantage they have found in being a member of an association is their ability to carry minimum stocks. For complete tables, see appendices H and J.

amount of stocks and the necessary space are probably less, since the lines of a cooperative house are not usually so complete as those of a service house.<sup>1</sup> On the other hand, however, the broken-package sales of a cooperative association, at least in the drug trade, average more. Physical storage costs in the grocery trade are probably slightly less for the association.

**Drop Shipments.**—In performing the function of storage, however, it has been claimed that the cooperative association has shifted certain phases and expenses to other distributors. Contrary to such opinion, the reports of 56 manufacturers in the drug and grocery fields indicate that cooperative associations request fewer drop shipments than do service wholesalers. This tendency is more pronounced in the grocery than in the drug field, where the request for drop shipments is not so common.

TABLE XXXIII.—EXTENT TO WHICH COOPERATIVE RETAIL BUYING ASSOCIATIONS AND SERVICE WHOLESALERS REQUEST DROP SHIPMENTS FROM MANUFACTURERS

	Total	Drug	Grocery
Total.....	56	35	21
Cooperatives request fewer than service wholesalers.....	19	14	5
Cooperatives request as many as service wholesalers.....	19	14	5
Cooperatives request more than service wholesalers.....	5	0	5
Manufacturers make no drop shipments....	9	3	6
No answer.....	4	4	0

**Small Orders.**—Concerning the size of the shipments, the cooperatives appear to be no worse offenders than are the service

TABLE XXXIV.—EXTENT TO WHICH COOPERATIVE RETAIL BUYING ASSOCIATIONS PLACE SMALLER ORDERS WITH MANUFACTURERS THAN DO SERVICE WHOLESALERS

	Total	Drug	Grocery
Total.....	56	35	21
Cooperatives place smaller orders.....	7	2	5
Cooperatives place orders of the same size..	38	27	11
Cooperatives place larger orders.....	5	3	2
No answer.....	6	3	3

<sup>1</sup> See tables, p. 74.

wholesalers, all of which suggests that, in these phases of its management, the cooperative is a slightly better customer of the manufacturer than his older competitor, the service wholesaler.

**Substitution.**—On the other hand, the association has been accused of shifting other distributing functions back to the retail member, particularly of substituting other merchandise when the goods ordered are out, or in delaying shipment until a new supply has been received. The information in the following table, however, supplied by 153 member druggists, refutes the first issue and suggests the answer to the second.

TABLE XXXV.—EXTENT OF SUBSTITUTION BY COOPERATIVE RETAIL BUYING ASSOCIATIONS AND OTHER SELLERS

Total retail druggists.....	153
Cooperatives substitute more.....	1
Cooperatives substitute no more.....	103
No substitution by either.....	28
Cooperatives substitute less.....	16
Equal amount of both.....	1
No answer.....	4

The practice in handling “outs” differs. Some associations report immediately that a given item is out when the order is placed over the telephone. The member can make his own substitution, wait until new merchandise has been received, or order elsewhere. If the line is not carried, the association, through other means, will attempt to get its members to purchase those which are carried.

The cooperative does shift the responsibility of carrying a full line to other distributors, presumably to service wholesalers. Irrespective of the question of whether or not the public needs every item which is manufactured and can be secured, the cooperatives do not supply all.

**Conclusion.**—In general, the cooperative retail buying association apparently performs the function of storage at approximately the same cost as the service wholesaler without shifting any extra expenses either to the manufacturer or to the retailer.



## CHAPTER X

### ORGANIZATION PROBLEMS

At least four general criticisms are leveled at cooperative retail buying associations: (1) The organization is weak; (2) the management is inadequate; (3) the location is poor; and (4) the members will not cooperate. There are a number of important organization problems, most of which are peculiar to this type of organization. They are (1) incorporation, (2) selection of members, (3) limitation of stock control, (4) method of voting, and (5) method of paying dividends.

**Incorporation.**—Prior to the recent war period, most cooperative retail buying associations were not incorporated until the members had experimented with a less formal attempt at cooperation, usually in the form of a buying club. Since that time, however, with more literature available on the common practices<sup>1</sup> and with more men available who are experienced in the operation of a cooperative association, there has been a tendency for many to open as full-fledged buying and operating companies after a brief formative period during which the original cooperators solicited new members.

**Selection of Members.**—The brunt of securing enough members and through them enough money to start operation falls upon the organizers who are likewise, usually, the officers. Their ability to persuade other retailers in the same locality to join depends upon their standing and success as retailers and upon the reputation of the prospective manager of the wholesale house.

As an organization becomes established in a community, retailers are attracted by its success. In consequence, more careful selection becomes possible. Few organizations, however, maintain a restrictive policy to reduce the opportunity of the average retailer to become a member. Some groups, having issued all their common stock, do not desire new members. They either wait for applicants to come to them or employ

<sup>1</sup> *Pharm. Era*, a national trade magazine going to retail druggists, advocated cooperative retail buying associations, particularly during 1927-1928.

contact men who spend their time in attempting to increase the total average purchase per member. The responsibility, however, for the selection or rejection of a particular applicant commonly lies with a permanent membership committee.

**Restriction upon Membership.**—In most organizations, there are no definite rules for such selection. Each applicant is considered upon the basis of his individual standing. In those companies where this question has been given more attention, and even in the smaller ones where the rule of thumb seems to be applied, there are certain general restrictions.

TABLE XXXVI.—PERSONS OR CORPORATIONS WHO CAN BECOME MEMBERS OF COOPERATIVE RETAIL BUYING ASSOCIATIONS

Eleven Cooperative Drug Associations Reporting	
Retail druggists.....	3
Qualified independent retail druggists*.....	5
Registered pharmacist†.....	2
No answer.....	1
Twenty-eight Cooperative Grocery Associations Reporting	
Retail grocers.....	15
Qualified independent retail grocers‡.....	7
Retail grocers, institutions, hotels, and large restaurants..	1
Retail grocers and delicatessen owners.....	1
Anybody.....	1
No answer.....	3

\* Qualifications are (1) "in good standing;" (2) "whose sales of drugs and drug sundries equal 50 per cent or more of total sales;" (3) "located more than one city block from nearest member;" (4) and (5) "who are not persistent price cutters."

† One reports registered pharmacist having prescription business.

‡ Qualifications are (1) "Must be separated by two city blocks, carry adequate stocks of advertised merchandise, sell them at advertised prices, use prescribed store fronts, and maintain clean stores;" (2) "must have annual sales volume of \$40,000 with a class-A rating or better and with store appearance up to standard;" (3) "must buy \$300 a week and be a member of the local grocers' association;" (4) "must be a member of the local grocers association;" (5), (6), and (7) "must have good financial standing."

**Trade to Be Served.**—The most obvious restriction is the trade to be served by the cooperative house. Without exception, those investigated in this study will not sell to retailers whose main business is supplied by wholesalers or manufacturers in another branch of trade. A cooperative drug house will not accept a retail grocer as a member.

**Neighborhood Competition.**—One of the questions raised, particularly in those organizations which push private brands,

is the problem of neighborhood competition. The desire on the part of the management to have as many members as possible works counter to the desire of the individual dealer to maintain every possible advantage in his own neighborhood. Some organizations have definite rules not to accept a new member located within one or two city blocks of another member. Others have the more common rule of accepting no member located in the same general neighborhood without the approval of the established member. Since such a prospect is acceptable if his method of doing business is common to that of the membership, members of the same association, in some instances, are located next door to each other or across the street from each other. Organizations permitting or encouraging such practices, however, do not actively promote the sale of private brands. In outlying districts or suburban towns, the common practice is to solicit only one retailer in each location for membership.

**Volume of Business.**—A few organizations will not accept as members retailers who have not attained some particular volume of business. One in the grocery trade requires a volume of \$40,000 a year; another, \$300 a week. Other associations have restrictions which, in effect, eliminate the small “shack” or “parlor” merchants, if in no other way, by requiring an investment which they cannot afford to make.

**Character of Applicant.**—The character of the retailer himself is of extreme importance to the continuity of the central organization. In both the grocery and the drug trades the desire of each association is to limit the membership to the more progressive retailers in the community. It is fair to infer that only such have the initiative to organize a cooperative retail buying association and only the larger ones the money to invest by later purchasing stock. This contention is supported not only by the managers of many, who may be prejudiced, but also by manufacturers as well. In 1922, William G. Mennen, president of the Mennen Company, said: “The retail buyer who buys from the wholesaler, as a rule, is a smaller dealer than a member of a mutual.”<sup>1</sup>

And yet many of the members of all associations and practically all of the members of some are less desirable as retailers. A new organization needs money badly and is prone to accept anyone willing to make the payment. A second association

<sup>1</sup> Federal Trade Commission *vs.* Mennen Co., testimony, p. 453.

in the same city, a condition which is not common,<sup>1</sup> is left to enroll those members who have not been acceptable to the older one or who have not chosen to join a cooperative. Associations of all sizes in large metropolitan centers, where desk jobbers, cash-and-carry jobbers, short-line jobbers, wagon peddlers, and others customarily cut prices, must solicit and hold members largely on a straight-price basis.<sup>2</sup> Furthermore, the larger the membership of an association the more necessary it becomes for it to select smaller, less efficient dealers, since it has a relatively larger proportion of the local retailers already in its membership.

At least one association makes allowance for members of different sizes by having two classes of membership: (1) regular, which is entitled to all buying privileges of the organization without any restrictions; (2) junior, created for the small merchant, which entitles him to the same privileges as a regular member, with the exception that his monthly purchases are limited to \$500 or less. Should his purchases exceed \$500 per month, he is required to take out a regular membership. The junior member has no choice whatever in this matter but automatically is charged with the additional deposit and becomes a regular member.

Cost of membership is as follows: Regular, initiation fee \$25, one share of capital stock \$50, guarantee fund deposit \$250, making a total of \$325. Of this sum, \$300 is returnable to the member 30 days after he severs his connection with the organization, provided his account is paid in full at the time he severs his connection. Junior, initiation fee \$25, one share of capital stock \$50, guarantee fund deposit \$100, making a total of \$175. Of this sum, \$150 is refunded upon the same terms or conditions as that of a regular member.

The two associations, one in each field, reporting over 1,000 members, sold, in 1926, an average annual volume to each member amounting to \$4,950 (drug) and \$3,125 (grocery). The average for the entire group was \$5,000 (9 drug) and \$4,534 (20

<sup>1</sup> There are two drug cooperatives in Newark, N. J., and Cincinnati, Ohio, and at least two grocery cooperatives in Wilmington, Del., in Philadelphia, Pa., in Washington, D. C., and in St. Louis, Mo.

<sup>2</sup> The manager of a large cooperative association located in New York City, doing an annual business of over \$1,000,000, states that all buying in that city in his trade is on a straight-price basis. While the writer was talking with him, a member left an order but deleted one item when he found the association price to be 60 instead of 58 cents, a price offered him elsewhere.

grocery).<sup>1</sup> These figures, also, suggest that the average type of member in the drug field is larger or more loyal than that in the grocery field<sup>2</sup> or that cooperatives in the drug trade carry larger assortments.

**Race and Color.**—Race and color play an important part in the selection of new members in some organizations. Few have any definite rules concerning either, although each may have a very definite policy in handling individual cases. One association will not accept as a member anyone who is not American born and who does not maintain his family on an "American standard of living." Such a rule is laid down in order to eliminate foreigners who operate "parlor" stores or who employ their families as clerks without covering their cost as clerks in the mark-up. In other words, many associations will not take chronic price cutters as members, even though there are no other members in the neighborhood.<sup>3</sup> Jews represent a large proportion of both the membership as well as the applicants for membership in a number of cooperatives. Few associations can afford to or are in a position to operate without them as customers. Some have taken action, however, to prevent them from gaining control by limiting their percentage within the total membership or by accepting them as non-voting members. One association which has a Jewish "membership" of about 60 per cent has created a buying privilege which requires a cash deposit equal to the value

<sup>1</sup> Dividing the associations on a basis of large or small memberships, the figures show:

AVERAGE ANNUAL PURCHASES PER MEMBER

	Membership of less than 250		Membership of more than 250	
Drugs.....	(6)	\$4,740	(5)	\$4,700
Groceries.....	(11)	5,735	(10)	4,433

<sup>2</sup> A director of one large Eastern grocery cooperative, however, says: "Our membership includes all kinds of stores, parlor stores, shacks, and family stores; some with weekly purchases of only a few dollars, few with purchases averaging over \$500 a week (the equivalent of approximately \$31,000 annual sales at retail)."

The manager of a large Western grocery cooperative says: "The extreme range of volume of business transacted by our members varies from \$20,000 up to \$2,250,000 per annum."

<sup>3</sup> One western cooperative grocery association limits its members "to the Caucasian race."

of stock held by regular members but carries with it no voting power.

In certain cities, selling to negro retailers presents a problem. In one case, at least, this question has been met by merely requiring a deposit large enough to cover weekly purchases. Such purchasers take no active part in the management of the association.

**Technical Requirements.**—A technical requirement of some organizations, particularly those in the grocery trade, is prior membership in the local trade association. There seem to be at least two reasons for such action. Either the cooperative association was originally organized by the officers of the trade association or, indirectly, the cooperative does not desire to accept as members anyone who cannot qualify as a member of the civic organization.

**Financial Responsibilities.**—If a retailer is acceptable as a member of the association, he is called upon to make a financial investment, which may consist of an initiation fee, a cash deposit, and an investment in preferred or common stock, or both. Only 13, 4 drug and 9 grocery associations, charge an initiation fee, which is a direct expense to the retailer and not a loan or stock investment. This fee, which ranges from \$5 to \$200 each, is usually set to cover the cost of securing the new member. Several old, and well-established organizations, however, have continued the practice. In such cases, the amount of the fee does not represent the immediate cost of securing new members but is merely included as other income to be used in paying the current operating expenses. A few organizations have been in a

TABLE XXXVII.—AMOUNT OF INITIATION FEE CHARGED MEMBERS OF COOPERATIVE RETAIL BUYING ASSOCIATIONS

	Total	Drug	Grocery
Total.....	13	4	9
\$ 5.....	1	0	1
10.....	1	1	0
15.....	1	0	1
25.....	5	2	3
35.....	1	1	0
50.....	2	0	2
00.....	1	0	1
200.....	1	0	1

position to charge large initiation fees, entirely out of proportion to the cost of securing new members. The only reason for setting them so high is the fact that prospective members will pay a premium for the anticipated privileges.

**Cash Deposits.**—The second charge, which is not a direct expense to the prospective member, is commonly called a “cash deposit.” Out of 34 answering, 13 require such deposit, ranging from \$100 to \$400 or set in proportion to the amount of weekly purchases, in addition to that needed for the purchase of capital stock. In either case, the payment usually must be in full, does not commonly draw interest, and is redeemable in full at the withdrawal of the member or the dissolution of the company.<sup>1</sup>

Some of the associations requiring a cash deposit, and practically all those who do not, have a definite or implied understanding concerning the use of common or preferred stocks, occasionally both, in case of delinquency.

Most associations make the procedure clear in the matter by incorporating it in the by-laws. Two articles in the by-laws of the New Jersey Wholesale Drug Company are illustrative. Article V, Sec. 1, reads:

The certificates of stock shall be signed by the president and treasurer and shall be transferred only upon the books of the company in person or by attorney and upon the surrender of certificates, pursuant to the regulations herein and in the certificate of incorporation contained.

Article VI, Sec. 1, reads:

In order to effectuate the lien of the company on the shares of stock as provided by the certificate of incorporation, the following shall be the course of procedure: At any time after 5 days' written notice by mail to the last-known address, or by delivery to the place of business, of any stockholder who is delinquent in any indebtedness to the company, the company without further notice may sell said stock at public or private sale at its election and may itself become the purchaser; provided, however, that if sold at private sale, the same shall not be sold for less than the book value of such stock as last fixed by the board of directors, in accordance with the provisions of these by-laws. The proceeds from any such sale shall be applied to the indebtedness of the delinquent stockholder to the company and the expenses of the same, if any; and if any surplus remains, the same shall be paid over to the stockholder within 6 months without interest, and no earlier demand shall be made. The certificate or certificates for said stock shall be

<sup>1</sup> For further discussion, see Chap. VI.

null and void upon the happening of any such sale and the company shall be entitled to possession of the same.<sup>1</sup>

Such procedure protects the company in case a member attempts to put up the stock as collateral or sell it. As a business proposition, no bank would knowingly accept such stock as collateral, although, if statements similar to the above are not placed upon the stock certificate, a purchaser in good faith would receive a clear title in many states at the present time. Practically, however, many associations do not issue the actual certificates, merely giving the members receipts for the money paid in and making the proper adjustments on the books.

Since the amounts of some of the deposits vary from member to member, no definite average figures can be given. Assuming the minimum charge in all cases, however, the average cash discount required by 11 of the 14 associations is \$190. The average requirement per association including those which require no deposit is \$65. Such a deposit, although returnable, represents three "expenses" to the retailer. In the first place, he is out the use of the money. Second, he commonly receives no interest upon this portion of his total capital. Third, he cannot earn a profit on this money above the interest rate possible if it were used in his business.

**Guarantee of Credit.**—Again, this policy of protecting the credit extended by cooperatives increases the expense of each member by forcing him to guarantee his own credit, by advancing cash prior to purchasing.

**Limitation of Common-stock Control.**—Incorporated retail buying associations, like other incorporated organizations, are usually controlled on the basis of stock ownership. The District Grocers Society, Washington, D. C., however, is an exception. It has no capital stock and each member has an equal interest in the society, which is managed by a board of directors. The money necessary for the purchase of a wholesale stock of merchandise is supplied by each member's deposit of \$225. The expenses of operation are paid for by a 1 per cent mark-up and an equal assessment per member at the end of each month for the excess. No credit is extended; no deliveries are made.

Although 3 other organizations report that they do not have any common stock, they and 13 others have preferred. The

<sup>1</sup> Printed as respondent's exhibit 1, Federal Trade Commission *vs.* Mennen Co.



remaining number have either common or both. The total capitalization of 30 associations under special study totals \$6,413,000, of which \$3,453,000<sup>1</sup> was issued January, 1928.

Many of these have increased their capital from time to time; however, 4 are satisfied to limit their membership to the common stock which has been turned in.<sup>2</sup> In some instances, this action places quite a premium on the market value of the stock.<sup>3</sup> Par value ranges from \$10 to \$400, including two issues with no par. The most common figure is \$100.

**Membership and Stock Ownership.**—Membership in the organization is not necessarily synonymous with stock ownership. For example, a retailer may become a participating member by making a cash deposit, but not be allowed to own stock.<sup>4</sup> At the same time, an individual may be allowed to purchase stock who is not a retailer, or continue to own stock after he retires as retailer. Such cases, however, are the exception, rather than the rule. Although the average holdings per member of one large grocery cooperative association are 2 to 7

<sup>1</sup> In greater detail, these figures are as follows:

	Twenty grocery cooperatives		Ten drug cooperatives	
	Capitalized	Issued	Capitalized	Issued
Common stock.....	\$2,650,000	\$1,478,100	\$1,955,000	\$ 836,000
Preferred stock.....	1,318,000	600,000	490,000	434,500
	<u>\$3,968,000</u>	<u>\$2,078,700</u>	<u>\$2,445,000</u>	<u>\$1,270,500</u>
	2,445,000	1,270,500		
	<u>\$6,413,000</u>	<u>\$3,349,200</u>		

<sup>2</sup> These are G. E. Hall Hardware Co., Minneapolis; Twin City Wholesale Grocery Co., St. Paul; Nat. Grocer Co., Louisville; and N. Y. Consolidated Drug Co., New York City.

<sup>3</sup> The Hall Co., during the summer of 1927, offered \$125 a share to secure a few shares of common stock the par value of which was \$100.

<sup>4</sup> Sixty per cent of the "members" of a large cooperative association do not own stock but hold buying privileges costing \$300 each. The manager of another drug cooperative writes: "Some prospective members are put on probation for 6 months. They do not have to put up a deposit. We check their credit rating. At present, we have about 20 such customers (membership is 230)."

shares, the manager owns 530 shares, \$10 par but with a total book value of \$32,330; and two of his assistants own over 300 shares each. The manager of a drug organization reports that 10 per cent of his common stock is held by members who have retired from active business, while another states that 15 per cent of his present members are retired druggists. One grocery association, whose report is not included in the statistical tabulations, is, to all intents and purposes, a private corporation. Because of the lack of any definite policy regarding the ownership of stock originally held by retail grocers, over 50 per cent of the voting stock is today held by retired grocers, their estates, or the public which has purchased it from such sources as an investment. The company sells at the competitive market prices, pays no dividends on purchases, but has for years paid 10 per cent on common stock.

Although there is nothing wrong in allowing a manager to own some common stock if it is not a too large portion of the total, there is a grave danger in the too common method of allowing members who retire to continue to own and vote their stock. To these men the buying privilege means nothing, except the possible opportunity to buy for personal consumption, but the stock dividend means much. While this danger can be easily overestimated, it is nevertheless true that the men who retire are the older members and, relatively speaking, the most active in such an organization.

**Limitation of Capital Stock Control.**—The ability of any member or any group of members to secure control of such an organization depends directly on the limitation of stock control, the manner in which the stock is voted, and, indirectly, the practice of paying dividends upon voting stock. The following table indicates the number of shares of common stock which each applicant of 35 associations can hold.

When one member can invest as much as \$35,000 in an organization, even though it is only 7 per cent of the total common stock outstanding or available, the return upon such an investment becomes a very important problem to the investor. The organization problems of four associations which have no limit on the amount of common stock which one man can own are even greater. The table indicates again, however, that such policies of control are the exceptions rather than the rule.

TABLE XXXVIII.—SHARES OF COMMON STOCK WHICH EACH APPLICANT CAN HOLD

Shares	Total		Drug		Grocery	
	Mini- mum limit	Maxi- mum limit	Mini- mum limit	Maxi- mum limit	Mini- mum limit	Maxi- mum limit
Total.....	35	35	11	11	24	24
1.....	12	3	2	2	10	1
2.....	5	1	2	1	3	0
3.....	3	1	0	0	3	1
4.....	1	0	1	0	0	0
5.....	3	2	0	0	3	2
6.....	1	1	0	0	1	1
7.....	1	0	1	0	0	0
10.....	1	2	1	1	0	1
12.....	1	1	1	1	0	0
20.....	1	0	0	0	1	0
40.....	0	1	0	1	0	0
60.....	0	2	0	1	0	1
100.....	0	1	0	0	0	1
Not to exceed 7 per cent....	0	1	0	1	0	0
No limit.....	0	4	0	2	0	2
No answer.....	6	15	3	1	3	14

**Method of Voting.**—An additional control is often placed upon common or voting stock by declaring that each member shall have only one vote, irrespective of the amount of stock which he owns or could otherwise vote through the use of proxies. Following the policy first successfully promulgated by the Rochdale workers, 9 of the 39 organizations allow only one vote to each member. This limitation is realized in 12 of the remaining number by the fact that all members are required to purchase exactly the same number of shares. Of the 15 others, from whom there is information on this subject, 8 place no limit on the amount of stock which one member can vote. These 8, at least, have an organization weakness which may hinder their growth as true cooperatives.

**Method of Paying Dividends.**—A third method of checking the possibility of control for investment rather than control for purchases is by limiting or eliminating any dividends upon the common or voting stock. Out of 26 associations, for which information is at hand, 14 do not commonly declare any dividends

upon their common stock. The usual rate in the other 12 instances is 6 per cent, although the figures range from 6 to 15 per cent.

There is, then, a minimum amount of evidence that many such cooperative associations are organized primarily for investment. It is true that, in most instances, a change of the present policy can be initiated by the board of directors. It is also true that there have appeared during the past 20 years many so-called "cooperatives," which have been largely privilege-selling or stock-selling schemes. They are, however, usually privately promoted.<sup>1</sup> In most cases, the investor merely receives the going rate of interest on his capital investment or no interest at all. In that case, an additional expense is incurred which must be included before the net value of a buying privilege can be estimated.

**Stock Holdings.**—The average stock holdings, both common and preferred, for 144 retail druggists amount to \$676 per member.<sup>2</sup> That the amount of stock most commonly held is \$400 indicates that there are several large holdings which, in individual cases, run from \$100 to \$9,500. To these figures, however, should be added deposits which are required of 90 of these druggists. While the most common deposit required is \$100, the average is \$140. This sum would amount to \$88, if all retailers who have to make no cash deposits were included. Thus, the total average investment, not including initiation fees and monthly allowances where required, is greater than \$750 per member in the drug field.<sup>3</sup> From available information,

<sup>1</sup> See pp. 3-6.

<sup>2</sup> All of these retailers were members of one of four cooperative drug associations. Similar information from retail grocers was not obtainable.

<sup>3</sup> Monthly allowances are more commonly required of members of buying clubs or semicooperative associations. A few cooperative associations still make a common monthly charge to all members, as does the following western grocery association. The manager writes: "Dues are assessed regular members at the rate of \$7.50 per month in advance and junior members \$3.75 per month in advance. Dues are a hangover from the early stages of development of our organization. The original basis upon which the institution was first founded was to sell merchandise at absolute cost to our members and collect the cost of doing business in the form of dues. This method of procedure soon became obsolete. We have deemed it advisable to retain the dues on account of various services that we render our members, such as bulletins, sales accounting, store arrangement, and many other problems which we assist our members in solving."

the investment for a retail grocer would be approximately the same.<sup>1</sup>

TABLE XXXIX.—AVERAGE AMOUNT OF CASH 144 RETAIL DRUGGISTS HAVE INVESTED IN THE STOCKS OF COOPERATIVE RETAIL BUYING ASSOCIATIONS

Average (arithmetic) stock holdings per member.....	\$676
Amount of stock most commonly held.....	400
Minimum amount of stock held.....	100
Maximum amount of stock held.....	9,500
AVERAGE CASH DEPOSITS ADVANCED BY 90 RETAIL DRUGGISTS	
Average (arithmetic) deposits per member.....	\$140*
Amount of deposits most common.....	100
Minimum amount of deposits.....	25
Maximum amount of deposits.....	400

\* The average is \$88 per member when all retailers who have no cash deposits are included.

**Stock Transfer.**—The opportunity of transferring the stock of a cooperative enterprise is limited. The shares are not in a public market. Usually, the association by-laws include some such statement as "No stockholder . . . shall transfer stock in this company without first notifying the company of the name of the proposed transferee and obtaining the consent of the board of directors."<sup>2</sup> Associations commonly reserve the right to buy back stock at par of a retiring member or to accept as member the retailer who purchases the retiring member's store.

**Preferred Stock.**—Preferred stock is not so widely held as common and not so widely used. Usually, preferred stock is not issued until there is some particular need for it. First, common stock may not furnish all the money needed for merchandise stocks. If the individual holders of common stock are limited, preferred stock can be used to produce more capital. Preferred stock may also be issued to furnish money for the erection or purchase of a building, although it is more commonly used to increase the total assets of the association.

<sup>1</sup> The deposits required by cooperative associations in the grocery field approximate those in the drug trade.

<sup>2</sup> By-law of the New Jersey Wholesale Drug Co. as printed in 1922 in the exhibits of the Mennen Co. case before the Federal Trade Commission.

Although the by-laws of very few cooperative associations have been studied, it is reasonable to assume that the number of shares which one member can hold and the amount of dividend declared on each are matters for the board of directors to decide. If there is a limitation of the voting power of the stock, it is probably so stated in the by-laws.

Only 17 of the 25 associations, for which information is available on this subject, have issued preferred stock, the amounts ranging from \$20,000 to \$600,000 and totaling only \$1,908,000. The average amount per association is \$112,000. The par value of such a stock is, in one instance, as low as \$20; 3 associations issue preferred stock with par at \$25, although the common figure is \$100.

The restrictions placed upon common do not, usually, apply to the preferred stock issued by the company. Since, with only one exception, interest ranging from 6 to 8 per cent is regularly paid, and since such stock does not ordinarily carry with it any voting power, it can be sold to members in unrestricted quantities and even to outsiders interested in the cooperative movement itself or in the stock as an investment. Sometimes, new members are required to take a certain amount of preferred with the common, and, more often, the entire amount available to any subscriber is limited.

**Conclusion.**—There is no evidence that cooperative retail buying associations, by the nature of their organization, reduce the expense of wholesale distribution. There is much evidence that this method of distribution increases the costs of others, notably the retailer member, by shifting certain costs to him. No retailer who buys at the market price from service wholesalers, for example, has to advance an initiation fee, pay cash in advance of order for all merchandise by making a cash deposit, or buy stock. These advances or investments represent, for the most part, cash outlay to the retailer. As has been indicated, his return is commonly something less than the market rate. It is to be presumed that it might be considerably less than the return he might earn on it, were it invested in merchandise which he sold over his counter. If, moreover, the retailer is capable of paying cash within 10 days, he has more capital in his business than would be necessary if purchasing from other types of wholesalers. In such a case, the capital expense accruing to a distributor who extends longer credit terms is transferred from the cooperative association to its membership, certainly not eliminated or even necessarily reduced.

## CHAPTER XI

### MANAGEMENT PROBLEMS

In considering the question of the adequacy of management, it is well to include (1) the location of managerial responsibility, (2) the selection of a manager, (3) the compensation of a manager, and (4) the effectiveness of the management of cooperative retail buying associations.

**Location of Managerial Responsibility.**—Like that of any other incorporated organization, the management of a cooperative retail buying association is vested in a board of directors, members of which are almost always active retailers. The organizers, who usually constitute the original board, generally continue in control of the organization. Likewise, the offices of president and treasurer are filled by the same men year after year. As a result, there is usually a continuity of policy, which approaches that found in private businesses. The services of newer members are obtained through their appointment to standing committees such as membership, auditing, prices, and advertising. The directors commonly receive an honorarium for attendance at the weekly or monthly meetings.<sup>1</sup> The officers if paid at all, receive a nominal sum for their services. The current operation of the wholesale house, however, in every case under study, is delegated to a full-time manager on pay.

Because of the small number of cooperatives in operation, few newly organized associations are in a position to hire an experienced manager. The question of selection is, therefore, a major problem. Such men come generally with wholesale or retail experience in the particular trade. There are exceptions.<sup>2</sup> Members of a board, realizing their ignorance of wholesaling,

<sup>1</sup> In addition to the meetings of directors, there are commonly weekly or monthly meetings of the membership. The manager is usually in charge, giving out market information, new deals, sales prices, or discussing general merchandising problems. Although there are exceptions, these meetings are usually poorly attended.

<sup>2</sup> A previous manager of the Quaker City Grocery Co., Philadelphia, was formerly a buyer for the Great Atlantic & Pacific Tea Co.

may hire a buyer, or even a warehouseman from some local wholesale house to act as manager. While such men bring valuable experience, they also bring habits and prejudices concerning operating methods.

**Selection of a Manager.**—As to the selection of a manager, the most common and profitable source for such a man is the retail field of the trade. That retailers become managers because they have failed as retailers is probably untrue as a general statement. It is true in individual cases, however; the manager of a Western cooperative association previously failed after having been in the retail business for 12 or 13 years.<sup>1</sup> Such a managership, no doubt, would look attractive to a small grocer who as such was just able to stay in business. Such a man, however, would probably not have initiative enough to be one of the organizers or to attract the favorable attention of the organizers merely because he could be hired cheaply. On the other hand, managers of such organizations as the Frankford Grocery Company, Philadelphia; United Grocers, San Francisco; United Grocers, Inc., St. Louis; Calvert Drug Company, Baltimore; Northwestern Drug Company, Minneapolis; or St. Louis Wholesale Drug Company were originally successful retailers.<sup>2</sup> J. H. Marshall was president of the Northwestern Drug Company at the time he became manager.

A successful retailer, however, will not *per se* make a successful manager of a wholesale house. Such a man is not familiar with or to the best suppliers. He cannot quickly place his organization on the wholesale list. Not familiar with stock and other problems particularly important to the wholesaler, he starts out with a prejudice in favor of the retailer. Furthermore, the capacity necessary to operate successfully a single-unit store may be inadequate to solve the more complicated problems of a larger wholesale organization.<sup>3</sup>

<sup>1</sup> Federal Trade Commission *vs.* Nat. Biscuit Co., testimony, p. 2362

<sup>2</sup> A few managers in the drug field have come from the staffs of schools of pharmacy. Examples are the managers of the Washington (D. C.) Wholesale Drug Exchange and the Philadelphia Wholesale Drug Co.

<sup>3</sup> In Philadelphia, particularly, associations also carry on "outside" activities. The Philadelphia Wholesale Drug Co. has an insurance fund for its members. The Frankford Grocery Co. used to operate a "bank" and continues to administer a fire insurance company and a building and loan association for its members. According to Patterson, the old Girard Wholesale Co. through the Retail Grocers Assoc., of Philadelphia as early as 1915 administered two building and loan associations, a house insurance



After the experimental period has been successfully passed, as in private businesses, each cooperative association appears to the outsider to be dominated by one individuality.<sup>1</sup> While, in specific instances, this person is the president of the association, generally he is the manager. The reason for this location of real responsibility lies in the very nature of a corporation. The general manager of any going business, because of his responsibilities, initiates many of the policies which may or may not be accepted by a board. One retailer, a director in a large successful association since its inception over 25 years ago, sums up the situation in this manner. In explaining why he installed in his store certain equipment costing over \$350, when he felt that it would not pay, he said: "The manager wanted to try it so I told him to go ahead." An even better example is found in the defunct Girard Grocery Company of Philadelphia, whose directors transacted their regular business for 5 years before they were aware that the association had sustained losses for approximately \$800,000.<sup>2</sup>

**Managerial Capacity.**—In regard to the payment of managers, much has been said about their small incomes. Before giving any consideration to the extent to which they are low, however, it is first necessary to determine and compare requirements of the positions of manager of a cooperative association and of a comparable service house. It is true that the manager of a cooperative house has few or no salesmen to manage, little or no credit extension to consider, and less stock to supervise. He must first, however, dominate his membership. Such a manager

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fund, a fire insurance company, a monthly magazine, a death benefit fund, as well as a jobbing house. *Amer. Econ. Rev., Suppl.* vol. V, No. 2, June, 1915.

<sup>1</sup> Alfred Marshall wrote: "Each successive step in the marvellous progress of the cooperative movement has tended to weaken the relative strength in its counsels of those in whose breasts the original cooperative faith is cherished. It is becoming more and more a huge business managed by men, many of whom are of high natural ability, though few of them have had extensive business training. Its problems are approaching to those of ordinary trade in their general character, and though they have taught, and are teaching, some first lessons—especially in relation to the importance of cash payments and a quick turnover—yet many of these lessons are assimilated by alert traders: and thus cooperators find themselves opposed by their own weapons in the hands of keen combatants." "Industry and Trade," The Macmillan Company, p. 294.

<sup>2</sup> "The Cooperator," published by the *Chicago Tribune*, September, 1926.

must secure new members while holding the old ones. It is bad enough for a service wholesaler to lose 1 of 4,000 customers; but proportionately worse for 1 of 400 members of an association to withdraw. The manager of a cooperative is salesman, credit man, and manager. He is really responsible to all members alike and for that reason must keep happy those who are large and small, "city" and "country," cash and credit, downtown and suburban.

A. H. Duete, former sales manager of the Borden Company, writes:

There are some buying exchanges which stand out as models of perfection. But when you come to analyze them, they are successful not because they are buying exchanges but because at the head there is some dominant personality who rules with a heavy hand. The head of the most successful buying exchange of which I know is nothing short of a bully. His group is very fortunate in having him to run the exchange. He is one of those men with whom personal income is of secondary importance. He gets huge delight and great satisfaction out of exercising authority. He likes to tell salesmen where to get off. He glories in being a carload buyer. And this chap runs his exchange. He would run a jobbing house almost as well, only the customers would be apt to leave. In this case, they have money up, and they listen to him. This same man would do well in any line of work where his dominant personality could have full play. He is doing a fine job.<sup>1</sup>

The lack of such leadership results in incidents, one of which is indicated in the following:

Well, at one time we went to the National and bought some of their goods, and they left it at the warehouse, and then afterward we got some of the things we wanted, and the trouble was this, that the general manager in charge of the warehouse would order some of the goods that a majority of the stores would not want because he had to give the order, and we would have some cakes that would not move, and the consequence was that it was not a success.<sup>2</sup>

In the second place, managers must be able to meet not only open competition but also much that is indirect. In the third place, managers of most associations have to anticipate their expenses before they are incurred in order to determine their selling prices.

<sup>1</sup> *Printers' Ink Weekly*, Mar. 15, 1929.

<sup>2</sup> W. M. Hornstein, president, 1922, D.G.S., in *Federal Trade Commission vs. Nat. Biscuit Co.*, testimony, p. 2467.

**Methods of Determining the Selling Price.**—There are two common methods of establishing the selling price: selling at cost plus operating expenses or selling at wholesale list. The latter method is most common in the grocery trade. The board or the manager, together with his associates, establishes a cost percentage for a given period, usually 1, 6, or 12 months. This figure may be merely an estimate or, more commonly, may be based upon past experience and may or may not, in specific cases, make allowances for market changes, reserve funds, and other more intangible factors connected with the operating of a wholesale house.<sup>1</sup>

TABLE XL.—BASIS FOR QUOTING SELLING PRICE TO MEMBERS

	Total	Drug	Grocery
Total.....	39	11	28
Regular wholesale list.....	9	4	5
Cost plus expenses of operating.....	29	6	23
No answer.....	1	1	0

**Cost Plus Operating Expenses.**—Under this method, the retailer does not have to “lend” to the group money which is paid back the last of the month, at the close of 3 months or even later. Thus, he has the continuous use of the money which represents the difference between his cost and list. He has a much more intelligent basis for cutting prices when necessary. He knows immediately his exact cost on each item he purchases or, at least, the cost of each order received. Knowing his costs, he knows where he can cut and to what extent and yet maintain his own net profit. Finally, he can easily determine whether he can purchase more cheaply from the association or from some other source. When the association prices are low, he can concentrate his buying with it. When lower prices are quoted elsewhere, he can place orders for individual items with such sources.

From the point of view of the association, this method of pricing has many dangers, however, and has been a contributing cause to some failures. The officers and manager of a new organization have no past experience upon which to rely. They have to anticipate sales and the cost of securing those sales

<sup>1</sup> One cooperative grocery association charges a straight 3 per cent. The manager receives as his salary any remainder after all bills have been paid.

before they can quote prices to the membership. The problem is further complicated by the fact that no wholesaler can take an even mark-up upon all lines, from sugar to privately branded canned goods. These men, therefore, usually all retailers, not only must set a margin for each line but also must estimate the relative proportion of sales of each before they open for business. While the officials of a going association can rely upon past experience, depending upon the accounting control which has been maintained, they, too, must carefully budget their sales by lines and expenses as well as determine actual costs at frequent intervals in order to anticipate current expenses, general demand, and major changes in buying habits.

At least one association in the drug field classifies its merchandise into three groups, according to the discounts it receives from the manufacturers, 10 per cent, 5 per cent, and net.<sup>1</sup> At the end of the week, when each member is billed, the totaled list price for each group is given, the discount subtracted, and the net total figure indicated. Thus, the member knows the list price of his merchandise, his saving, and the amount of his statement.

Ordinarily, the officials, particularly those of a new association, imbued with the spirit of cooperation, may easily overestimate the savings which can be effected. They are very apt to believe that the costs of operating are much less than they later prove to be.<sup>2</sup>

One method of keeping the advantages of this system of selling prices while attempting to eliminate the evils is to make a definite charge, 1, 2, or 3 per cent at the time the goods are sold. At the end of the month, after all association bills are received and paid, the total expense over and above the money already received is prorated equally among members.<sup>3</sup> Such a method is known to be in use in only two associations, and there is little likelihood of its spreading, even if the excess were to be prorated upon a basis of sales.

**Current Wholesale List.**—An increasing number of cooperative associations in the drug trade charge and bill their members at the current wholesale list price for every article purchased.

<sup>1</sup> The Union Wholesale Drug Co., Boston.

<sup>2</sup> One in the grocery field started operations in 1922 with the idea of adding 1 per cent to cost to cover all operating expenses.

<sup>3</sup> One grocery association charges 1 per cent. At the end of each month, each member is billed for his share of the excess of expense over income, which one month was prorated equally at \$12.15 each.

Each member pays his association exactly the same amount he would pay a service wholesaler. At the end of 1, 3, or even 15 months, a rebate is returned, representing the difference between the costs of operation and total payments made by each member.<sup>1</sup> The amounts of such rebates are universally based upon purchases, not stock ownership, except in so far as part of such saving is returned as dividend on common stock in excess of the current interest rate for money.

A method for handling the billing under this system was introduced by the Mutual Drug Company of Cleveland, a leader in this movement, and is slowly being adopted by others.<sup>2</sup> The Northwestern Drug Company of Minneapolis has five billing columns: A, 10 per cent; B, 15 per cent; C, 20 per cent; D, 25 per cent; and N, no discount,<sup>3</sup> representing discounts received by the association.<sup>4</sup> Prices are quoted at list with A, B, C, D, or N discounts. Statements, rendered weekly with prices at list, show the total purchases by different discount groups. By the middle of the following month a rebate check is mailed each purchaser, representing the difference between the total discounts and prorated share of the operating charges.

The advantages of the former method are the disadvantages of this one. In the first place, a member does not know his net cost on any one item. He is at a loss to know how low he can mark his goods without reducing his net profits. He may come to the conclusion that some other source of supply which cuts list prices slightly is offering a better bargain than is the cooperative. Of course, he is out the use of the rebate money until it is returned. The longer this period the more difficult it is for him to coordinate in his mind the saving on any one article and the article itself. It is also true that if the saving is made, but the money remains in the control of the group, there is always the temptation to expand too rapidly, build up unnecessary reserves, or otherwise place the organization in the

<sup>1</sup> One association in the hardware trade holds all such dividends for 5 years, paying the going rate of interest and using the money to build up stocks.

<sup>2</sup> At least three associations now using the other method of pricing anticipate changing when convenient.

<sup>3</sup> The "no-discount" goods are mark-downs, slow-moving goods, or soiled materials. As a matter of fact, 1 per cent is given on such merchandise.

<sup>4</sup> Cash discounts received are used to pay dividends on common stocks.

position where its members cannot secure the maximum cash savings through membership. Such a condition may engender suspicion.

At the same time, this method has several important advantages. In the first place, it is more acceptable to manufacturers and competitors, because the cooperative group does not outwardly cut prices. The prices which it advertises in its catalogue and elsewhere are those common in the trade at large. Manufacturers who hesitate to sell to a price cutter can more easily sell to an association of this type.<sup>1</sup> This method protects the unintelligent member, who often cuts prices unusually low because he does not know his own costs or know what his mark-up should be. Such practice tends to relieve many individual cases of ignorant neighborhood competition, especially in the drug field.

By using this method, the refund becomes more of a financial matter and less of a merchandising weapon. To the extent to which this point is true in individual cases, the retailer is liable to keep for himself the savings which a cooperative brings to its members. It does not prohibit the dealer, however, from cutting prices when necessary. In a highly competitive trade or market, where price cutting is the rule, however, this method shifts the risk of adjusting expenses and the selling price from the officials of the association to the individual merchant, who is even less capable.

From the point of view of the association, this second method is much the better. With management of equal quality it has a much greater opportunity to build up a financially and commercially strong organization capable of meeting private business. From the point of view of the cooperator or retailer, some of whom operate largely on a day-to-day basis, the first plan is better. The retailer is out a minimum amount of cash from week to week, and to that extent it pays him to continue to buy from the association.

As long as the second method—that of selling at the regular wholesale list—is not acceptable to the members, it will not become widely adopted, for the evident reason that these members are the stockholders and are directly represented on the

<sup>1</sup> The manager of one large cooperative drug association states that he does not use nor does he favor this method. He thinks he may adopt it, however, if manufacturers insist.

board of directors, the body ultimately responsible for all association policies. By adopting the first method, associations place upon their managers a responsibility which requires unusual ability. At the same time, this method leaves the association open to a failure which might result even under the best management attracted by private or cooperative business.

Finally, successful managers not only have to know cost but they have, also, to be keen students of market conditions and changing demand. It is obvious that a successful manager of a service wholesale house might be a failure at managing a cooperative, and *vice versa*. There is no reason to believe, therefore, that the position filled by the latter requires less managing capacity.

**Compensation of a Manager.**—Little information is available on the compensation of managers. In the drug trade, many managers are paid a definite salary with a yearly bonus or gift amounting to one-half of 1 per cent of the excess of sales over those of the preceding year. The president of one organization says that salaries average \$6,000 to \$6,500 for houses with net sales of less than \$500,000 to over \$7,000,000. The manager of one association doing a business of over \$2,000,000 is reported to be receiving \$10,000 annually. That of another with a large volume of sales is reported to receive \$20,000. The bonus naturally varies widely, although, in most cases, the annual increase has been large during the past 5 years. The annual gift voted by other boards cannot be averaged, although it is often known to be a considerable amount. A director of one associations says: "It may seem peculiar to pay the managers of cooperative associations a bonus for increased sales, but they, like others, work hard to earn it each year."

In the drug trade, with one or two exceptions, it is probably true that these salaries are below those which the same men might expect from managing a service wholesale organization doing the same volume of business.<sup>1</sup> It would seem that the

<sup>1</sup> A composite estimate of five service wholesalers in the drug trade concerning salaries of managers therein is as follows:

	Average salary
Sales of less than \$500,000.....	\$ 3,000
\$500,000 to \$999,000.....	5,000
\$1,000,000 to \$2,999,000.....	7,000
\$3,000,000 to \$4,999,000.....	12,000
\$5,000,000 and over.....	15,000

managers of the smaller associations are better paid in proportion.<sup>1</sup> It does not appear, however, that, with this exception noted, managers are working for much less than they might otherwise receive.<sup>2</sup>

There is even less information available in the grocery field. It has been reported that, at one time, the manager of the Girard Grocery Company, Philadelphia, received \$20,000 and that at the time of its failure in 1926 he was receiving \$15,000. At the present time, the president-manager of another large one receives \$15,000; one of his assistants, \$10,000; a buyer, \$5,000; the bookkeeper, \$3,000; while no one else receives more than \$2,000 a year.<sup>3</sup> The manager of another, with sales of about \$250,000 in 1926, receives \$3,500; and another, with annual sales of slightly more than \$100,000, receives \$2,700.

In addition to the salary and bonuses and gifts when given, some managers receive an additional income from the ownership of stock upon which dividends are commonly paid. Although the holdings of some managers are large, many own no stock at all and the majority own only a nominal amount. While this source of income to the association manager is usually nominal, it is often the major portion of that of the manager or owner of a service house. Here appears to be the real source of difference in net incomes.

**Management and Office Expense.**—The figures given in Chap. IV<sup>4</sup> indicate that for one cooperative association the charges for management are somewhat lower but that those for office salaries, wages, and bonuses are high enough to make the total for these combined expenses almost as great for the association as for the most efficient service wholesaler.<sup>5</sup> Information from five differ-

<sup>1</sup> This conclusion is a rough evaluation of oral reports received from men interested in cooperatives and men interested in service houses.

<sup>2</sup> It must be remembered that a majority of the large organizations are still operated by the original manager whose increase in salary possibly has not kept pace with that of sales.

<sup>3</sup> There is no reason to presume that junior executives, office workers, or laborers are paid less than the market rate, although specific cases may declare otherwise. Managers who may be receiving less themselves will not claim this fact for any of their workers, with the possible exception of an assistant.

<sup>4</sup> See p. 34.

<sup>5</sup> It must be remembered, however, that the little information available concerns the going companies and not those which have disappeared.



ent qualified sources suggests the following salary scale for managers of service houses in the grocery trade:

	Average salary
Sales of less than \$500,000 . . .	\$3,000
\$500,000 to \$999,000 . . . . .	4,500
\$1,000,000 to \$2,999,000 . . . . .	9,000 apt to secure a bonus
\$3,000,000 and over . . . . .	\$15,000 to 25,000 apt to secure a bonus

If this table is reasonably correct, it indicates that a manager of a cooperative retail buying association in the grocery trade receives an income as large as he would as manager of a service organization doing the same volume of business.<sup>1</sup>

**Effectiveness of the Management.**—Much has been said about the effectiveness of the management of cooperative retail buying associations. At least four of the factors used from time to time to indicate varying points of view on this question are sales per employe, stock turn, capital turn, and surplus. Before discussing each one, however, it is advisable to ascertain the attitude of retail members of operating associations. In four large drug cooperatives, 14 out of 121 members name good management as the thing which they like best.<sup>2</sup> This conclusion is counterbalanced, however, by the opinions of 15 others, who give management as the factor which they most desire to see improved.<sup>3</sup> It is true, to a limited extent, however, that a dissatisfied retailer will withdraw, just as an unusually poorly managed association will, in time, disappear.

**Sales per Employe.**—An occasional reference is made to the total number of employes per given volume of sales. Such a comparison is usually made on a basis of sales per salesman. Such figures would have no significance here, however, since associations employ few or none. In 8 drug associations for

<sup>1</sup> Such a condition aids in verifying the statement that a cooperative association has fewer executives than a service wholesaler. It goes further, however, and indicates that the resulting decrease in expense is made up, in part, by an increase in salaries, wages, and bonuses.

<sup>2</sup> For complete table, see Appendix J.

<sup>3</sup> These 15 opinions may be classified as follows:

Improvement in management . . . . .	7
Reduction in operating expenses . . . . .	3
Greater uniformity in pricing . . . . .	2
Understudies for executive . . . . .	1
Better order-filling department . . . . .	1
Better stock control . . . . .	1

For complete table, see Appendix I.

which data are available, the average sales per employe in 1926 were \$26,900. In 22 cooperative grocery associations, the 1926 figure was \$62,500. Although comparisons cannot be made with service houses, because no comparable information is available, these two figures clearly show why the percentage of total expenses to net sales of a drug association is greater than that of one in the grocery trade. Drug associations are forced to employ more workers per unit of sales because (1) they carry a greater variety of merchandise at a slower rate of stock turn, (2) they have a larger broken-package business, and (3) they offer more service, particularly delivery service.

Figures for one large drug association over a period of time tend to even out at about the figure given above.

TABLE XLI.—SALES PER EMPLOYE FOR ONE COOPERATIVE RETAIL BUYING ASSOCIATION FOR 10 YEARS IN THE DRUG TRADE

	Number of employes	Sales per employe
1917	5	\$24,000
1918	11	30,000
1919	19	35,000
1920	35	31,000
1921	42	31,000
1922	63	26,000
1923	70	28,000
1924	72	27,000
1925	83	26,000
1926	97	28,000

**Stock Turn.**—Another point at issue is stock turn. In the drug trade, only three figures are available for cooperatives, ranging from 5.7 to 8.9 turns per year, and averaging 7.4 times in 1926.<sup>1</sup> This average compares with 3.8 times for 129 service firms, figured for 1924.<sup>2</sup> In comparing these three figures with those of the most efficient firm in the same sales-volume group, the following differences appear:

<sup>1</sup> These figures were worked out from sources by the writer and are comparable to the Harvard figures, although not necessarily typical.

<sup>2</sup> Operating Expenses in the Wholesale Drug Business in 1924, Harvard Univ. Bur. of Business Res., *Bull.* 50, p. 22.

TABLE XLII.—COMPARISON OF ANNUAL STOCK TURNS FOR THE MOST EFFICIENT SERVICE DRUG FIRMS AND CERTAIN COOPERATIVE DRUG ASSOCIATIONS

	Service firms	Cooperative associations
	1924	1926
Sales of less than \$1,000,000.....	(1) 3.8	(1) 8.9
\$1,000,000 to \$1,999,000.....	(1) 4.8	(1) 5.7
\$2,000,000 and over.....	(1) 13.5	(1) 7.7
Average for all reporting.....	(129) 3.8	(3) 7.4

The small cooperative association with a turn of 8.9 times limits its stock to fast-moving patents, over one-fifteenth of which is on one item and, therefore, is not typical. On the other hand, the most efficient service wholesaler reporting in 1924 to the bureau had a stock turn of 13.5. Although the firm is located in a large metropolitan area where quick deliveries are the rule, there is no other reason to believe that this high figure is not real and earned.<sup>1</sup> Thus, it would seem that the difference between the average figures is too great and that while the stock turn for all 16 cooperative associations would probably average higher than 3.8 times, the difference would be much less than these three figures suggest.

Such a conclusion, however, does not say that the management of cooperatives is more effective than that of service wholesalers. It will be remembered that, in Chap. IX, it was concluded that cooperatives in the drug trade carry somewhat smaller stocks than do competing service wholesalers with equal sales volume. These figures verify that conclusion. If they indicate anything as far as the character of management itself is concerned, they suggest that its quality is not greatly inferior, if at all, to that of the service houses.

Slightly more information is available for cooperative associations in the grocery trade. While the average stock turn for 501 service wholesalers was 5.9 times in 1923,<sup>2</sup> the average for 13 grocery cooperatives in 1926 was 10.7 times.

<sup>1</sup> Similar figures for the 2 preceding years were over 10.

<sup>2</sup> Operating Expenses in the Wholesale Grocery Business in 1923, Harvard Univ. Bur. of Business Res., *Bull.* 40, p. 11.

TABLE XLIII.—COMPARISON OF ANNUAL STOCK TURNS FOR THE MOST EFFICIENT SERVICE GROCERY FIRMS AND CERTAIN COOPERATIVE GROCERY ASSOCIATIONS

	Service firms	Cooperative associations
	1923	1926
Sales of less than \$500,000.....	(1) 7.6	(6) 8.3
\$500,000 to \$999,000.....	(1) 7.7	(2) 9.5
\$1,000,000 to \$1,999,000.....	(1) 7.3	(3) 9.5
\$2,000,000 and over.....	(1) 6.4	(2) 20.6
Average for all reporting.....	(501) 5.9	(13) 10.7

In the grocery trade, the relationship between the stock-turn figures for service wholesalers and cooperative associations is practically the same as that found in the drug trade. The very high stock turn for the largest group of two cooperatives is the result of a turn of 29 times given and checked for one quite large association. It is located in the West and has an average of 1,700 items in stock.

As in the case of the drug trade, this higher turn appears to be largely if not the entire result of a smaller variety of items.<sup>1</sup> Also, there is no indication that management is either better or worse, although, in the case of three of the associations with sales in 1926 of less than \$500,000, a small turn indicates weak management. Such is not necessarily the case, however, when it is realized that a small association is forced to keep almost as many items as one doing twice the volume.<sup>1</sup>

**Capital Turn.**—Another basis for comparison which is commonly used by cooperatives is capital turn. The following comparison is not based upon total assets, the figures commonly used, for such are not available for cooperative associations. It is based on common and preferred stock issued.

<sup>1</sup> See p. 74.

TABLE XLIV.—COMPARISON OF CAPITAL TURN\*

	Service wholesaler	Cooperative association
	1924	1926
Drug:		
Sales of less than \$1,000,000...	(5) 4.3	(2) 14.6
\$1,000,000 to \$1,999,000.....	(5) 4.6	(4) 8.8
\$2,000,000 and over.....	(5) 4.1	(2) 12.6
	1923	1926
Grocery:		
Sales of less than \$500,000....	(5) 5.9	(4) 12.0
\$500,000 to \$999,000.....	(5) 3.4	(2) 4.9
\$1,000,000 to \$1,999,000.....	(5) 5.1	(4) 16.4
\$2,000,000 and over.....	(5) 5.3	(3) 11.3

\* Capital turn here equals  $\frac{\text{Total net sales}}{\text{Total capital stock issued}}$ .

Although these figures are favorable to the associations<sup>1</sup> and are probably those held in mind by persons asserting that cooperatives operate with less capital, they do not include the outside capital which may be employed. Assuming that both associations and service wholesalers have an equal proportion of accounts payable, accrued expenses, and surplus, the cooperative still has the use of money derived from cash deposits, unpaid merchandise dividends or refunds, and bonds. Not all associations have all of these items on the liability side of the balance sheet, yet the net difference gives them a greater proportion of other capital. A drug association which had a capital turn,

<sup>1</sup> The figures for one large drug association for a period of 9 years suggest that after a period of development, less capital stock is issued in proportion to the total amount needed. Such a conclusion assumes that the proportion of capital stock issued to total assets and liabilities remained the same throughout the period.

PERCENTAGE OF TOTAL CAPITAL STOCK ISSUED TO TOTAL NET SALES FOR ONE COOPERATIVE RETAIL BUYING ASSOCIATION FOR 10 YEARS

1918	10.8	1923	8.6
1919	18.3	1924	8.1
1920	20.4	1925	7.8
1921	14.1	1926	9.1*
1922	10.9		

\* The percentage of total assets to total net sales for 1926 was 22.4 per cent.

when based on capital stock issued, of 7.6 times, had a capital turn based on total assets of 4.5 times for the same period. The capital turn of a smaller drug association was likewise reduced from 13.2 to 4.9 times when based on total assets. One association in the grocery trade, not included in the above tables, had sales in 1926 of over \$3,000,000 but had issued capital stock for only \$17,550. Money is secured from a 10-year note issue of \$121,100 and a guarantee fund of \$86,000.

**Amount of Capital Needed.**—Taking all of these factors into consideration, while it is true that the cost of capital is less for cooperatives than for service wholesalers,<sup>1</sup> the amount of capital used appears to be more nearly equal. This conclusion is suggested by the fact that the capital turn of a grocery cooperative and that of a service grocery organization calculated under similar conditions was identical.<sup>1</sup> This cooperative association, however, extended 30-day credit. If less credit is extended, less capital is needed by the association. The final conclusion, therefore, is reasonable: Both use approximately equal amounts of capital for equal services performed.<sup>2</sup> To the extent that an association limits credit, it uses less capital and increases capital turn, but the savings cannot be attributed to the effectiveness of management. Here, again, there is no indication of any important variation in the quality of management.

**Surplus.**—A final item of significance is the policy of handling surplus. It already has been pointed out that most associations quote prices based on cost.<sup>3</sup> This policy necessarily means narrow margins and relatively small surplus accounts, particularly for new associations. The gross margins and total expenses for six associations, all with sales volume of more than \$1,000,000 in the grocery field, where this method is more prevalent, follow:

Percentage gross margin*	Percentage total expenses*	Percentage net profit*
4.50	4.23	0.27
4.50	4.00	0.50
4.57	4.12	0.45
3.22	2.47	0.75
6.00	3.76	2.24
4.72	4.16	0.56

\* Figured on net sales.

<sup>1</sup> See p. 34.

<sup>2</sup> If the association uses less capital by extending less credit, it reduces its own expenses but not necessarily those of its members (see p. 58).

<sup>3</sup> See pp. 104-108.

An abrupt change in the market will quickly wipe out such a margin, unless the management is alert.<sup>1</sup> Since "plowing" back net profits into the business is a common method of increasing total assets, a new cooperative association is at a severe disadvantage when it attempts to sell exactly at cost. If the dividends declared are subtracted from the net-profit figure for service wholesalers, equally narrow margins would probably be found. These margins, therefore, are not so significant as the surplus account. The following figures, which are only samples, indicate that, in the drug trade, the actual surplus received presumably from selling operations is very small when compared both with sales and total liabilities. In the larger associations, however, the surplus account does not include a special purchase fund for members and members' deposits guaranteeing purchases—two large accounts.

	Surplus Sales	Surplus Total liabilities
Six drug service wholesalers (1924)	15.3	39.1
A large drug cooperative association (1926).....	1.6*	7.0*
A small drug cooperative association (1926).....	2.1	10.1
Eight grocery service wholesalers (1923).....	5.6	16.8
A large grocery cooperative association (1926).....	1.8†	14.9†
A small grocery cooperative association (1926).....	3.7	36.9

\* By including a special purchase refund to members and members' deposits guaranteeing purchases, these figures become 4.7 and 20.8 per cent, respectively.

† By including the guarantee fund deposits account, these figures become 3.8 and 31.8 per cent, respectively.

<sup>1</sup> The profit-and-loss statement for the Girard Grocery Co. for the year ending June 30, 1919, shows a balance (net profit) of \$59,000 on sales of \$5,866,000. The balance sheet for the same year shows a surplus of \$8,273, a surplus paid in of \$99,350, and a reserve of \$9,976, making a total presumable surplus of \$118,000 with total assets equaling \$1,380,000. *Grocers Rev.*, pp. 389-400, August, 1919, as quoted in Abbott, "Competition and Combination in the Wholesale Grocers Trade in Philadelphia," pp. 20-24. It was approximately such a sum with which the management had to face a sugar bill in 1921, equaling about \$800,000 more than the market price.

In the grocery trade, however, the two examples compare favorably with the average for eight service wholesalers. Additional information for more cooperative associations, however, could result in a greatly different average figure.

It is sometimes claimed that because there are fewer full-time executives in a cooperative association, their work is commonly done by non-owners at a cost which is considerably less. The figures in Chapter IV indicate that this conclusion is, to a slight extent, correct. The saving of 0.25 per cent by the particular cooperative association on "executive salaries (including buying)" is decreased to a net saving of 0.11 per cent over one service wholesaler operating under similar circumstances when the "office, salaries, wages, and bonuses" account is added. While these figures are not necessarily typical, they are indicative of a reasonable situation.

**Conclusion.**—Unlike many of the other sections of this discussion, there is nothing in the discussion of management to indicate that the average going cooperative retail buying association shifts any expense or responsibility to others, whether manufacturer, other wholesaler, or retailer.



## CHAPTER XII

### LOCATION PROBLEMS

Cooperative retail buying associations are found scattered throughout the United States. The 96 grocery associations, which, according to *Thomas'*, were in operation in 1927, were located in 28 states. They were not to be found in Alabama, Arkansas, Colorado, Florida, Indiana, Louisiana, Mississippi, Montana, Nevada, New Hampshire, New Mexico, North Dakota, Oklahoma, Rhode Island, South Dakota, Tennessee, Texas, Utah, Vermont, and Wyoming.

**Distribution of Associations.**—According to the ranking of the number of cooperative retail buying associations, they are distributed, with exceptions, according to population and the total number of retail grocery-store outlets. With few

TABLE XLV.—RANKING OF STATES ACCORDING TO CERTAIN FACTORS

	Population 1925*	Retail grocery stores; delicatessens†	Number of grocery cooperative retail buying associations‡
New York.....	1	2	2
Pennsylvania.....	2	1	1
Illinois.....	3	3	4.5
Ohio.....	4	4	4.5
Texas.....	5	5	None
Michigan.....	6	9	16
Massachusetts.....	7	7	6
California.....	8	6	3
New Jersey.....	9	8	16
Missouri.....	10	10	8.5
Wisconsin.....	14	15	8.5
Kentucky.....	16	22	8.5
West Virginia.....	27	26	8.5

\* "Population and Its Distribution," 4th ed., p. 2.

† *Ibid.*, p. 313.

‡ For table, see Appendix F.

exceptions, the states in which there are no true cooperative associations are small, more sparsely populated, and agricultural by nature, in which retail competition is not intense enough to force independent merchants to cooperate with each other, or in which wholesale competition is very strong. That there are more in proportion in California may be because first, cooperation of all types is more common in this state and second, there is a very strong competition of chain stores. Michigan has relatively few cooperatives, primarily because of the effectiveness of service wholesale grocers operating within its area. In Rhode Island and Texas, the service wholesalers have been in a strong position. In Rhode Island, they have readily adapted themselves to newer methods of distribution.<sup>1</sup> In the latter, because of the slower development of chain stores and the distance between markets, they have held their own.<sup>2</sup> Much of the New Jersey market is supplied on a price basis from the metropolitan area of New York.

**Trading Area.**—Cooperative retail buying associations are not the local institution which they are some times called.<sup>3</sup> Such is not the case, at least, of those under study. Of 3,693 members of 10 cooperative drug associations, 2,436, or 60 per cent, are located in the central city. The figure for groceries is approximately the same, averaging 65 per cent for 22 associations. In 11 instances, among the total of 32, the number of "country" members equals 50 per cent or more.<sup>4</sup> The Philadelphia Wholesale Drug Company has buying members in Florida. The Northwestern Drug Company, Minneapolis, has members scattered over North and South Dakota and Montana.<sup>5</sup> In spite of this dispersion, however, the territory

<sup>1</sup> Special report by J. S. Foley in Sales Management, Harvard Univ. Graduate School Business Administration.

<sup>2</sup> J. Walter Thompson *News Bull.*, September, 1927.

<sup>3</sup> WELD, *Druggists Circ.*, p. 119, March, 1917.

<sup>4</sup> "Country" represents any city, town, or rural community other than the city in which the warehouse is located.

<sup>5</sup> Since there are, roughly, five times as many retail grocers in the United States as retail druggists, since grocery cooperatives do not so commonly deliver as do those in the drug trade, and since the products carried by grocery associations are more perishable than those common to the drug trade, it is surprising that cooperative retail buying associations in the grocery trade have so many members located at a distance from the central warehouse and that they have a proportion as large as those in the drug trade.

covered by cooperatives is largely limited to the trading area surrounding the city in which the warehouse is located.

**Retail Membership.**—In these 28 states, however, cooperative retail buying associations cannot expect to serve all the retailers in their respective trades. In the first place, even in those cities in which cooperatives have been established for a long period of years, not even a majority of the potential number have become members.

TABLE XLVI.—PERCENTAGE OF RETAILERS IN CENTRAL CITY WHO ARE MEMBERS OF A COOPERATIVE RETAIL BUYING ASSOCIATION

	Drug associations, 7 cities			Grocery associations, 14 cities		
	Members		Total dealers	Members		Total dealers
	Per cent	Number		Per cent	Number	
Average (arithmetic)...	41	1,626	4,011	26	3,535	13,847
Highest member average.....	62	100	160	72	125	175
Lowest member average	13	129	1,000	10	41	400

The figures indicate that only about 40 per cent of the retailers in the drug trade and 25 per cent in the grocery trade are members of an association.<sup>1</sup> Although the variation is great between cities, a comparison between cities in which associations have been in operation for 15 to 40 years and those in which younger ones are operating shows only a slight variation.<sup>2</sup> There is little reason to believe that this figure will greatly increase in the future, since the limitation is, to a considerable extent, the result of the action of the cooperatives themselves when they limit the type of location, store, and members they will accept and the service which the cooperative has to offer in exchange for

<sup>1</sup> Out of 101 retail druggists, 3 state that they would like to have a larger membership so that the association could purchase in larger quantities. For complete table, see Appendix I.

<sup>2</sup> Seven associations organized during or prior to 1920 had an average of 27 per cent, while seven others organized subsequent to 1920 averaged 26 per cent.

membership.<sup>1</sup> Finally, though a retailer would otherwise make an acceptable member, he may not be in a position to become a member because of lack of capital.

Such a limitation must be recognized when a cooperative organization is contemplated. Mr. Stall, manager of the Cincinnati Economy Wholesale Company, has estimated that a group of cooperators in the drug field should have \$150,000<sup>2</sup> in cash and 50 discounting members, each of whom would purchase \$500 worth of merchandise from the association monthly, before opening the warehouse.<sup>3</sup> F. T. Roosa, president of the Mutual Drug Company of Cleveland, writes: "You cannot operate a cooperative jobbing house economically on annual sales of less than \$1,000,000 and you will do much better if your sales are two or three times this amount."<sup>4</sup> Although there is no similar information available for the grocery trade, apparently it should be assured of approximately 50 prospective members capable of supplying at least \$50,000 immediate capital, and a monthly sales volume of \$25,000.<sup>5</sup>

**Associations in Larger Cities.**—In practice, within these 28 states, associations are found only in the larger cities. In the drug trade, for example, not one of the existing cooperatives is located in a city with a population of less than 50,000, and only 5 in cities with less than 400,000, and yet, according to one authority, over 50 per cent of the drug stores of this country

<sup>1</sup> With percentages as high as these for the central cities, some idea of the coverage of "country" territories can be gained by remembering that the estimated percentage of cooperative drug retailers to total drug retailers is 13 per cent, while the figure for grocers is 12 per cent (see pp. 23 and 26).

<sup>2</sup> While many of the most successful cooperatives were originally organized with as few as 16 members and \$320 in cash, conditions 30, 20, or even 10 years ago were different.

<sup>3</sup> Reported at the annual convention of the Federal Wholesale Drug Assoc., 1927.

<sup>4</sup> *Pharm. Era*, p. 36, February, 1928.

The Harvard figures for 1925 indicate that the average service wholesaler in the drug trade doing a business of over \$2,000,000 had the lowest average total expense figure. Operating Expenses in the Wholesale Drug Business in 1924, Harvard Univ. Bur. of Business Res., *Bull.* 50.

<sup>5</sup> Estimate is based upon figures for 26 grocery cooperative retail buying associations.

are located in cities with a population of less than 25,000.<sup>1</sup> In the grocery trade, the dispersion is somewhat greater. There are 5 in cities with less than 100,000 population, 9 in cities with population ranging from 100,000 to 399,000, while 7 more, out of a total of 21, are located in cities with more than a population of 400,000.

In spite of the low percentage of "city" sales (65 per cent), this figure is probably higher than a similar figure for service wholesalers. No definite information is available, but in 1924, 50 service drug wholesalers reported their proportion of "city" and "country" sales to the Harvard Bureau of Business Research.<sup>2</sup> The exact figures are not available, but 26 of these firms had "city" sales of "less than 35 per cent of total sales," while 24 had "city" sales of 35 per cent and over of "total sales." Although it would appear that the proportion of "city" sales for grocery wholesalers should be large, such is not the case among the cooperatives. If this relationship holds true for service wholesalers, a reasonable conclusion is that cooperative houses serve a more local clientele than do service wholesalers in the same line.

**Associations in Small Cities.**—From another angle, cooperatives are not located in small cities to the same extent as are service wholesalers.

No comparable figures are available for the grocery trade, but the same conclusion appears to apply here, although not to the same degree.

With these facts in mind, the question of selling to non-members becomes a very important problem. If sales are limited to

<sup>1</sup> *Amer. Druggist* gives the following table, dated September, 1927:

LOCATION OF RETAIL DRUGS STORES	
Towns of	Number of retail druggists
500 and less.....	6,051
501 to 1,000.....	4,810
1,001 to 2,500.....	5,832
2,501 to 5,000.....	3,790
5,001 to 10,000.....	3,294
10,001 to 25,000.....	4,249
25,001 to 100,000.....	6,146
100,001 to 500,000.....	7,313
Over 500,000.....	9,750
Total.....	51,235

<sup>2</sup> *Bull.* 50, p. 65.

members, the market is limited; if not, what are the advantages of becoming a member?

TABLE XLVII.—NUMBER OF COOPERATIVE RETAIL BUYING ASSOCIATIONS AND SERVICE WHOLESALERS LOCATED IN CITIES OF DIFFERENT SIZE

	Drug cooperatives	Service wholesalers reporting to Harvard*	Members of National Wholesale Druggists Association
Total.....	16	129	232
Population:			
Less than 50,000.....	0	43	73
50,000 to 399,000.....	5	60	106
400,000 and over.....	11	26	53

\* Bull. 40.

**Sale to Non-members.**—Cooperative associations do not commonly sell at wholesale to retailers other than the independent merchant.<sup>1</sup> In the drug field, for example, only one out of eight associations sell to department stores.<sup>2</sup> This same ratio holds true for chain stores. The practice of selling to independent, non-member retailers, both in this and in the grocery trade, is more common.

TABLE XLVIII.—EXTENT TO WHICH COOPERATIVE RETAIL BUYING ASSOCIATIONS SELL TO NON-MEMBERS

	Total	Drug	Grocery
Total.....	39	11	28
Sell to non-members.....	28	9*	19
Do not sell to non-members.....	7	1	6
No answer.....	4	1	3

\* One states only on deposit of \$200. Another reports only 20 non-member customers.

Those refusing to sell to non-members are, in general, larger than the average size. Those selling to non-members have little

<sup>1</sup> Minutes of the directors' meetings, Federal Wholesale Druggists Assoc., 1927.

<sup>2</sup> Upon occasion, cooperative associations sell to as well as buy from service wholesalers. In the drug trade, the practice varies from selling to none to selling to any at full discount.

aggressive means of doing so. Such sales are commonly for cash and come to the association for one of at least three reasons: It has an exclusive agency,<sup>1</sup> it recruits its new members from among those who have for a time purchased without a membership or even a buying privilege, or it is located in such a small territory that sales to non-members are essential to build up a reasonable volume.<sup>2</sup>

**Price Differential.**—When sales are made to non-members, some differential in price is usually made in favor of the members. In 10 out of 25 cases, membership appears to mean little or nothing to a local retailer. Non-members secure exactly the same prices as those who have invested money and time in the organization.

TABLE XLIX.—ADVANTAGE GIVEN MEMBERS BY COOPERATIVE RETAIL BUYING ASSOCIATIONS SELLING TO NON-MEMBERS

	Total	Drug	Grocery
Total.....	25	9	16
Considerable advantage (15):			
Lower net prices (average about 5 per cent).....	14	4	10
Credit for 30 days.....	1	0	1
Little advantage (7):			
Dividend on investment.....	4	2	2
Voting power.....	1	1	0
Increased purchasing power.....	2	0	2
No advantage (3).....	3	2	1

**Potential Market.**—It has been pointed out that about 65 per cent of the members of the cooperatives in both the drug and grocery trades are located in the same city with the central organization and warehouse. Assuming Stall's figures, that 50 discounting members are needed before a drug association should be started,<sup>3</sup> and taking the averages already worked out as typical, 33 of these members would be located in the central

<sup>1</sup> The Washington (D. C.) Wholesale Druggists Exchange, being the only wholesale house in the city, has some exclusive agencies and for this reason actively solicits non-members. Other cases are rare.

<sup>2</sup> One manager of a small grocery cooperative located in a city with a population of about 15,000 writes: "Our city is too small to limit our business. We needed the business of non-members. The stockholders profit by this additional outlet, giving us more buying power, better discounts, and larger sales."

<sup>3</sup> See p. 121.

city. Since 40 per cent of the retailers in such an average city have proved to be members,<sup>1</sup> there would be 82 retail drug stores in the minimum-sized city. On the average, each of the 50,000 retail drug stores serves 2,600 people.<sup>2</sup> The average city large enough in which to start a drug association must have a minimum population of 185,000. In 1925, there were only 39 cities in the United States with a population equal to this figure. Not one of the 16 associations operating in 1927 was located in a city so small as 200,000. This conclusion indicates that, on the average, cooperative retail buying associations in the drug field cannot reach their share of the potential market of more than 44,500,000 people, located in the trading areas<sup>3</sup> of these 39 cities.<sup>4</sup>

In the grocery trade, of the 50 necessary members,<sup>5</sup> 33 would be located in the central city. They, however, would represent only 20 per cent of the total number of resident grocers, or 132. This number of grocers can support a population of 55,000.<sup>6</sup> There were 154 cities of this size in 1925, the wholesale trading area of which contained 54,000,000 people.

Just as in the smaller cities there is not enough interest in this type of distribution<sup>7</sup> to secure its widespread adoption, so in the

<sup>1</sup> See p. 120.

<sup>2</sup> The 1925 population of the United States was estimated to be 113,000,000. "Population and Its Distribution," 4th ed., p. 2.

<sup>3</sup> *Ibid.*, pp. 3, 4, 1926.

<sup>4</sup> These 39 cities include New York, Chicago, Philadelphia, Detroit, Cleveland, Los Angeles, St. Louis, Baltimore, Boston, Pittsburgh, San Francisco, Buffalo, Milwaukee, Washington, D. C., Newark, Minneapolis, New Orleans, Seattle, Cincinnati, Kansas City, Indianapolis, Rochester, Jersey City, Louisville, Toledo, Portland, Denver, Columbus, Providence, Oakland, Atlanta, St. Paul, Omaha, Birmingham, San Antonio, Akron, Dallas, Richmond, and Worcester. F. T. Roosa, in an article in *Pharm. Era* for March, 1928 (p. 69), gives a list of 49 cities as suitable centers for cooperative houses.

<sup>5</sup> See p. 121.

<sup>6</sup>  $132 \times (114,000,000 \div 273,734)$ . See, also, p. 26.

<sup>7</sup> The average yearly purchase per member for different cooperative retail buying associations, classified according to the size of the trading area in which each is located:

Population of trading area	Drug	Grocery
1,000,000 and over.....	(6) \$4,593	(7) \$4,309
500,000 to 999,000.....	(5) 4,985	(3) 5,786
499,000 and less.....	*	(11) 3,320

\* No drug cooperatives under study are located in cities with a trading area of less than 650,000 people.



large cities competition is so keen that cooperative associations cannot operate at a much greater saving, if at any.<sup>1</sup> The lack of competition leaves the compelling force of this defensive method absent; keen competition gives it little advantage, if any.

**Conclusion.**—Since the cooperatives cannot be expected to secure as members a large proportion of “country” retailers, since they cannot be expected to secure as members even a majority of the “city” retailers, and since they are not usually in a position to sell aggressively to non-members,<sup>2</sup> the conclusion is evident: Service wholesalers must continue to sell to a large share of “country” retailers as well as to a large proportion of those located in the city. Such customers would probably be smaller and poorer credit risks.<sup>3</sup>

<sup>1</sup> In the grocery trade, the percentage of cooperative members to total retailers is 9 per cent in four cities with a population of over 400,000 and 18 per cent in six cities with a population of less than 400,000.

At the same time, the members of associations with the largest total membership purchase somewhat less per capita than do those with a smaller number.

Number of members	Drug	Grocery
250 members or more.....	(5) \$4,700	(10) \$4,433
249 members or less.....	(6) 4,740	(11) 5,735

<sup>2</sup> This factor is not only important to those trades where associations are now to be found but also indicates that cooperative retail buying associations cannot easily develop in certain other trades such as shoes, clothing, and office appliances, where exclusive agencies and selective and direct distribution are more common.

<sup>3</sup> “Country” sales are more expensive, at least in the drug trade. Operating Expenses in the Wholesale Drug Business for 1924, Harvard Univ. Bur. of Business Res., *Bull.* 50, p. 65.

## CHAPTER XIII

### COOPERATION PROBLEMS

Between 1897, and 1927, 120 out of 152 druggists joined a cooperative retail buying association to secure merchandise at lower prices.<sup>1</sup> Cooperation among retailers will naturally grow and continue as long as through that cooperation the retailers are able to buy merchandise at a real or imagined saving, at a price permitting its resale in a competitive market at a profit. The fundamental question concerning the real "spirit of cooperation," however goes beyond this conclusion. In 1919, Abbott, making a study of cooperation in the grocery trade in Philadelphia, concluded that the two cooperative associations under study "command the interest and loyalty and sentimental support of the grocers to an extent to which a regular wholesaler never could."<sup>2</sup>

**Loyalty of Membership.**—One of the owners and managers of a large wholesale drug house in a Middle-western city says:

Some time ago, we gave our customers a straight 10 per cent discount on fast-moving proprietaries. The move was practically forced on us by one local service wholesaler as well as others outside who ship into parts of our territory. Although we gave 10 plus 1 per cent for cash in 10 days, 1 per cent better than the local cooperative house offered its members, we were unable to take any business away from the association.

The manager of a small Eastern cooperative drug association says:

There is a great deal of cooperation between our members and the association. Often, our members will purchase merchandise from us even though it costs them more than a similar quantity would cost if

<sup>1</sup> The 41 other multiple reasons given can be classified as follows:

Meeting competition.....	12
Securing quantity prices in $\frac{1}{2}$ -dozen lots.....	14
Keeping service jobbers in line.....	15

<sup>2</sup> ABBOTT, "Competition and Combination in the Wholesale Grocery Trade in Philadelphia," p. 71.

purchased from some service wholesaler. Just for example, service wholesalers offer a straight 10 per cent discount on many items, purchased in quantities of 12, but if the retailers pay cash, they will receive from some an additional 1 per cent. We can offer only 10 per cent off on these goods. Many of our members buy a particular product from us at 10 per cent off, when many of them could purchase it direct for 10- 5- 2 per cent off list. Very often, a member will read off his entire list of wants in order to be sure that he does not purchase any products elsewhere which we can supply. This is their company and they want to help it succeed.

The manager of another cooperative drug association says:

Members are very loyal except when pressed for money. Loyalty goes beyond ability to save money. The members are impressed with the honest effort of the management. When compelled to charge full prices on articles that are maintained, some members stayed with us although they knew there would be no rebate.

The manager of still another drug association says: "If a manufacturer refuses to sell us, we notify our members, who usually back us up and stop pushing that item." The reasoning of some manufacturers leads to the same conclusion.<sup>1</sup>

Not all agree, however. The manager of an old and large cooperative drug association located in a metropolitan area says:

There is no cooperation here. Everything is on a price basis. Price competition is exceedingly keen. If we do not undersell the market on every item on a member's order, he will go elsewhere for those on which we may be a little high. You will see the amount of cooperation we have when I tell you that at our annual meeting last week, 11 members, including 7 directors, were present.

This association has over 200 members.

The manager of a successful grocery cooperative association in the Middle West says:

We take all merchandising losses incurred by holding stocks in time of falling prices. At the outset, we tried to sell all merchandise on a basis of cost, not market price, but we quickly found that, although we were operating a cooperative organization, as soon as we asked our membership to purchase sugar, for example, at a price somewhat higher than the market price, our members made purchases elsewhere.

The manager of another Middle-western grocery association says:

<sup>1</sup> See pp. 66-69.

Those using only 25 per cent of their purchasing opportunity with us are just poor managers, not taking the opportunity which is open to them. They think their trade is different; they are careless in their buying; they wait for salesmen to call and buy whatever is presented to them.

The manager of an urban consumers cooperative association says:

I do not feel any different now [1921] than I did 15 years ago; I did not pool at that time with anybody. I never saw a body of retail grocers stick together in the world. They may pool together but not stick together. And, if I may say it without your asking a question, I had a meeting 15 years ago of all the retail grocers in Belmont, trying to get them to agree to close their stores, and it was not done for a week. Now, if you can get a body of retail grocers to stick together, you can do better than I can.<sup>1</sup>

The manager of a system of chain stores in New York City, at one time a retailer actively interested in a cooperative retail buying association in the grocery trade, said:

Well, it happens that there are 50 members who will order a carload of prunes, and when they get that carload in, their members have bought from other competitors. They have fallen for somebody else's prunes and when their own corporation wants to sell the prunes to them, they don't need them, and the outcome is that their own buying association is overstocked and they have got to go to some broker, and very often the market is with them, and they earn money.<sup>2</sup>

**Distribution of Membership Purchases.**—Another manner of approaching this question is to determine the extent to which members purchase from associations. In studying the reasons why these retailers do not purchase more through the association, it is evident that some, such as an inadequate stock of merchandise, are either inherent in the method or outside the control of the retailer. But the following multiple reasons are pertinent:

Lower prices from other sources .....	37*
Inadequate service .....	16
Need for competitive market .....	4
Difficulty of turning down salesmen .....	4
Loyalty to former distributors .....	3

\* These figures should not be added, since they represent multiple answers. For complete table, see Appendix K.

<sup>1</sup> Charles F. Merrill, manager of Belmont Cooperative Soc., Massachusetts. Federal Trade Commission, *vs.* Nat. Biscuit Co., testimony, p. 571.

<sup>2</sup> *Ibid.*, p. 1979.

These retail druggists do not claim to buy all their stock from their own association. The following table gives their own estimates:

TABLE L.—PERCENTAGE OF MERCHANDISE\* PURCHASED FROM DIFFERENT SOURCES

Total retail druggists reporting, 132	
Total.....	100.0
Cooperative association.....	69.0
Service wholesaler.....	18.6
Cash-and-carry wholesaler.....	0.7
Wagon wholesaler.....	0.4
Chain stores.....	0.7
Other (including manufacturers).....	10.6

\* Refers only to merchandise which would be purchased from a service wholesaler.

**Average Membership Purchase of One Association.**—It is practically impossible to tell how accurate such an estimate as the above is. The average sale, at wholesale, for one large, well-managed drug association, per member, is about \$4,400.

TABLE LI.—SALES PER MEMBER FOR ONE COOPERATIVE RETAIL BUYING ASSOCIATION FOR 10 YEARS

	Number of members	Sales per member
1917.....	134	\$ 880
1918.....	176	1,840
1919.....	224	2,940
1920.....	278	3,960
1921.....	325	4,110
1922.....	371	4,420
1923.....	426	4,790
1924.....	484	4,064
1925.....	531	4,140
1926.....	586	4,560

If the average purchase per member for this association is \$4,400 at wholesale, the retail value is about \$6,670.<sup>1</sup> According to the figures on Table L, this sum equals 69 per cent of the possible purchases, the total purchases of this type equaling \$9,660. This cooperative handles dry chemicals, patent medicines, toilet articles, rubber goods, and candy, which equal

<sup>1</sup> The retail margin of 34 per cent is used (see p. 24).

approximately 50 per cent of the sales of an average drug store.<sup>1</sup> Thus, if the estimates in Table L are reasonably correct, these retailers should average total annual sales of slightly less than \$20,000. The average given for 11 typical American cities, however, is \$35,500.<sup>2</sup> While this figure is probably higher than the average for all drug stores, the discrepancy is great enough to indicate that the reporting druggists were probably optimistic in estimating the amount of their purchases from their own cooperative association.

Since there is this great difference of opinion among managers and cooperators themselves, the query arises as to whether successful associations are the result of thorough cooperation when others fail for the lack of it. The answer depends upon the ability to find some basis for classifying the fundamental causes for success and failure.<sup>3</sup>

**Racial Characteristics.**—Some students feel that the success of any cooperative enterprise, other things remaining equal, depends upon the racial characteristics or upon the nationality of the cooperators. It is held by some that northern Europeans are more apt to cooperate than are southern Europeans or purer American stock. They cite the spread of wholesale and consumer societies in England, Denmark, and Germany as examples. Two facts support the theory. The first known cooperative retail buying association was organized by a group of German druggists. The largest association in each of the drug and grocery trade is located in Philadelphia, where the retail trade was dominated for many years by Germans.

It is true that the idea of retail cooperation, which appears to have taken slightly different forms in New York City, Phil-

<sup>1</sup> See p. 24.

<sup>2</sup> *Retail and Wholesale Trade*, p. 41

<sup>3</sup> In a recent publication of the Department of Agriculture, the following "reasons for failure of agricultural cooperative associations" are given:

	Per cent
Inefficient management.....	72
Inefficient working capital.....	24
Inefficient business.....	23
Too liberal credit to patrons.....	17
Voluntary dissolution.....	12
Dishonest management.....	8
Unfair competition.....	2
Acts of Providence.....	6
Miscellaneous causes.....	8

adelphia, Baltimore, and Washington, D. C., found expression first among those not only capable of conceiving the idea but also willing to carry it out, with little or no proof of the outcome. Such thought still dominates the minds of many of these older gentlemen who today continue to manage and buy from such cooperatives.

These men contrast, however, with some of the younger managers and their members. The older retailer, who has seen the association grow from a buying club of 13 members to its present size with annual sales in the millions, continues to practice the "spirit of cooperation." To the younger men who join a successful organization, cooperation largely means lower prices. They buy where lower prices are lowest. An organizer and officer of one young association uses it merely as a means of securing discount from manufacturers who will not sell to him direct.

While, then, there is evidence that nationality played a part in the organization of cooperatives, 20, 30, or 40 years ago, there is no evidence that it plays a part in the organization of new ones today or in the present operation of the older ones.

**Private Brands.**—A second factor is the use of private brands. A cooperative retail buying association is in a peculiar position to profit from private brands, because the majority of its customer members are non-competing. If these retailers are cooperative by nature, such cooperation ought to be apparent in their pushing of private brands with consequent greater use. While they are uncommon in the drug field, private brands are popular in the grocery trade.

TABLE LII.—COOPERATIVE ASSOCIATIONS HAVING PRIVATE BRANDS

	Total	Drug	Grocery
Total.....	39	11	28
Private brands.....	17	2*	15
No private brands.....	20	8	12
No answer.....	2	1	1

\* Private brands very limited.

Approximately 56 per cent of the cooperative grocery associations use private brands—an almost exact proportion of their use by other wholesalers. The American Wholesale Grocers

Association in 1926 reported that 57 per cent of its membership approved private labels.<sup>1</sup>

The main reasons given for the use of private brands can be summed up thus: "We are protecting our future."<sup>2</sup>

The two important reasons why some associations do not push private brands are (1) that many associations are too small<sup>3</sup> and (2) that consumer recognition for nationally advertised goods is too strong.<sup>4</sup>

<sup>1</sup> *Bull.* 1303, December, 1926.

#### <sup>2</sup> REASONS WHY GROCERY COOPERATIVES USE PRIVATE BRANDS

Total .....	15
"We are building our own future" .....	3
"To protect our profit" .....	2
"Members are independent of outside competition" ..	2
"To control the quality of merchandise" .....	1
"To control prices" .....	1
"Convenient to sell same label" .....	1
"Ties members to association" .....	1
No answer .....	4

<sup>3</sup> The average total sales figure for 1926 of 15 associations having private brands is \$1,750,000. The same figure for 8 having no private brands is \$975,000.

#### <sup>4</sup> REASONS WHY COOPERATIVES DO NOT USE PRIVATE BRANDS

	Total	Drug	Grocery
Total .....	20	8	12
"Not large enough" .....	4	2	2
"We push nationally advertised goods" .....	2	2	0
"Want to 'cash in' on consumer acceptance" .....	3	1	2
"Do not believe in them" .....	2	0	2
"Desire to limit activities to jobbing" .....	1	1	0
"Druggists have their own private brands" .....	1	1	0
"No advantage to retailer" .....	1	0	1
"Too expensive to introduce new brands" .....	1	0	1
"Prefer working with reputable manufacturers" .....	1	0	1
"Stores operated independently" .....	1	0	1
No reason .....	1	0	1
No answer .....	2	1	1

One manager of a grocery cooperative association with annual sales of approximately \$500,000 says: "First, because we are not large enough to make purchases in advantageous quantities; second, we believe that in following the line of least resistance we can make greater progress."

Another writes: "Prefer working in conjunction with reputable manufacturers and packers on nationally known and advertised brands."

A third gives this reason: "Advertised brands sell more readily, especially over the telephone or by circular."



Since, then, private brands are no more common among grocery cooperative associations than among service wholesalers, the apparent advantage of a common line of merchandise handled on an exclusive higher-margin basis seems to be overemphasized.

**Independence of Retailers.**—A third factor to consider is the relative independence of the retailer. It is aptly illustrated by the following statement of a retailer given in answer to the question why he would not pool. "I like to work for myself, and the other fellows do the same."<sup>1</sup> While it is impossible to say to what extent such men would join a cooperative association, it is certain that those who did join would be apt to purchase on a purely price basis.

Such lack of cooperation is not peculiar to retailers. In the *Wholesale Druggist* for December, 1927, on the editorial page appeared this statement:

Of the 300 service wholesalers who are members of the N. W. D. A., only 80 . . . have cooperated with the association in putting over the Christmas merchandising campaign on which the Committee on Education of the association has spent so much effort, time, and intelligence.

Dr. E. L. Newcomb, secretary of this trade association, in an address before the Proprietary Association, in May, 1927, said:

After visiting wholesale druggists in different sections of the country, I was amazed to find that there is absolutely no unanimity of thought or opinion in the entire wholesale industry relative to the problems of distribution.<sup>2</sup>

Such differences of opinion indicate the lack of cooperation among service wholesalers. Here, however, the success of the

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The manager of a cooperative drug house with annual sales of about \$2,000,000 says: "Dead against private brands. Believe function of cooperative is to distribute goods for which there is a market."

Another states: "We cash in on national advertising and it lowers our overhead in sales effort."

<sup>1</sup> Federal Trade Commission *vs.* Nat. Biscuit Co., testimony, p. 1018. Another retailer replied as follows: "Well, I am rather an independent merchant, I like to buy my goods in the open market, and I would not hardly confine myself to that, because a man comes and shows me some merchandise and it is real good, and I never tie myself down to anybody; I pay cash and discount everything we buy." *Ibid.*, p. 146.

<sup>2</sup> *Wholesale Druggist*, p. 13, June, 1927.

individual enterprise rests upon private initiative, not upon cooperation, as in the case of cooperative associations. The distinction is important.

**Causes of Success.**—The causes of success can be located more easily than those of failure. In the hardware trade, its management is without doubt the cause of the most successful organization. In the drug trade, there are at least three outstanding associations. Two of these have the same management today which they had years ago when organized. That this management has been effective is indicated by their size, one being one of the largest wholesale drug houses in the United States. A third organization was opened, dragged along for a time, almost failed, and then was placed under new management. Immediately, the company began to grow and prosper.

Conditions are slightly different with the outstanding cooperatives in the grocery trade. The leading organization is located in a highly competitive territory. It has developed a set of very strict rules, which are adhered to. Conversation with members of this association makes evident that the present manager, who has held that position for a number of years, dominates the organization and its membership. He himself attributes the success of the association to the "cooperative method of doing business." Two other very successful grocery associations are dominated by their managers.

Although these managers are not owners, it seems reasonable to assume, from the evidence, that cooperative associations, like corporations, are successful largely as the result of capable and intelligent management.

**Causes of Failures.**—Failures, on the other hand, show other factors. In 1917, Weld said he knew of "failures that have occurred in 12 cities."<sup>1</sup> The failure rate of true cooperative retail buying associations has not been so high as is commonly presumed.<sup>2</sup> The following table, presented after the same plan used in the

<sup>1</sup> In *Druggists Circ.*, p. 119, March, 1917.

Dr. Weld, later in correspondence, wrote that this list, which is not available, probably includes semicooperative houses. The American Wholesale Drug Co., Denver, is an example. This house failed in 1927 as a result of action brought against it by a manufacturer who was owed \$110,000. The company, also a member of the Federal Wholesale Druggists Assoc., was primarily a promotional scheme; a majority of its stock was held by a small group of men who were not retail druggists.

<sup>2</sup> See Appendix F.

Oshkosh study for retailers covering the years 1890 to 1912,<sup>1</sup> indicates that 96 out of 180 associations, or 54 per cent reported during this period, were still in operation in 1927.

		1909	1911	1914	1916	1919	1921	1924	1926
	1908	1910	1913	1915	1918	1920	1923	1925	1927
1908.....	13*	13	13	13	12	12	12	11	9
1909 to 1910.....	..	0	0	0	0	0	0	0	0
1911 to 1913.....	..	..	9	9	9	9	7	7	7
1914 to 1915.....	..	..	..	15	13	12	11	8	7
1916 to 1918.....	..	..	..	..	29†	23	17	16	15
1919 to 1920.....	..	..	..	..	..	34‡	13	8	7
1921 to 1923.....	..	..	..	..	..	..	26§	22	18
1924 to 1925.....	..	..	..	..	..	..	..	21	17
1926 to 1927.....	..	..	..	..	..	..	..	..	16
Total.....	13	13	22	37	63	90	86	93	96

\* Of these 13, 12 were organized at some time prior to 1908.

† Two other associations were organized and disbanded during 1916-1918, inclusive.

‡ Seven other associations were organized and disbanded during 1919-1920, inclusive.

§ Eight other associations were organized and disbanded during 1921-1923, inclusive.

Although these figures represent mere reports of organization and disorganization, and although they include some semi-cooperative companies while not including all,<sup>2</sup> they show that many of the failures which did take place were among those organized during and immediately after the World War, when the prices of grocery products were rapidly rising.<sup>3</sup> For example, during the period 1919 to 1920, of the 41 associations reported "organized," 7 were reported "failed" during the same period 21 out of the remaining 34 were reported "failed" during the next 3 years. For the period 1908 to 1927, the average failure rate was 7.4 per cent per year. Similar information is not available for service wholesalers, but the retailers represented in the Oshkosh study are of the same type of business men as those

<sup>1</sup> This table follows the form used in the Oshkosh study of retail stores for the period of 1890-1912, as presented in Nystrom, "The Economics of Retailing," 2 ed., p. 316.

<sup>2</sup> See p. 14.

<sup>3</sup> See Appendix F, graph 1.

who form cooperative retail buying associations. Their average failure rate for 1890 to 1913 was exactly 10 per cent, almost one-third again as high as the figure for the grocery associations.<sup>1</sup> In the case of the associations, of those operating at the close of 1920, 31 per cent failed during the 3-year period of 1921 to 1923. Only 12 per cent, however, of those operating at the end of 1925 failed during the 2-year period of 1926 to 1927.

**Bradstreet's Figures.**—Contrasted with these figures are those given by Bradstreet for commercial failures in all classes of business, including both retail and wholesale, for the period 1906 to 1925, ranging from 0.29 per cent in 1919 to 1.08 per cent in 1922.<sup>2</sup> On December 18, 1926, the American Wholesale Grocers Association issued a bulletin, a report on a questionnaire sent to its membership, in which appears the following statement: "Replies to these questions indicate that for every new house established, two were discontinued."<sup>3</sup>

Thus, while the failure figures for cooperatives in the grocery trade are much higher than the average for all types of business, they appear to be lower than those for retailers and probably not far from the figure for service wholesalers.

These figures indicate two things: (1) Cooperative retail buying associations may be a defensive weapon and as such are started at times when prices are rising rapidly; (2)—and more important—these figures point out the difficulties which confront a cooperative association during its formative period, the first three to five years.<sup>4</sup>

Although the table as a whole suggests that real cooperatives have by no means approached a saturation point, it does indicate that the earlier ones were either organized more carefully, had less keen competition during their early development, or both. Such a conclusion bears out the contention that the spirit of cooperation played a larger part in the formation of the older associations than in that of the newer ones.

**Fundamental Causes for Business Failure.**—Dewing gives four fundamental causes for the failure of business organizations:<sup>5</sup>

<sup>1</sup> NYSTROM, "Economics of Retailing," 2d ed., p. 316, 1920.

<sup>2</sup> BECKMAN, "Wholesaling," p. 552.

<sup>3</sup> Bull. 33.

<sup>4</sup> The average length of life of the 84 failures was 4.16 years, while that of the 96 in operation in 1927 was 8.31—twice as long.

<sup>5</sup> DEWING, "Financial Policy of Corporations," Ronald Press, p. 909, 1927.

(1) excessive competition, (2) unprofitable expansion, (3) changing public demand, and (4) distribution of capital as ostensible profit. All four of these, with the possible exception of the third, apply to cooperative retail buying associations.

Specific information concerning the real causes of failures is difficult to secure. At the time the organization is broken up, the manager is prejudiced, as are the members. Third parties have only a superficial appreciation of the conditions. Personal calls were made on or replies were received from 34 companies reported by *Thomas'* or other sources as having failed during the years 1920 to 1927. Of this number, 13 were not real cooperative associations. The reports on 7 others were too general to be of any value. Following Dewing's classification, however, the general cause in each of 14 specific cases may be summed up as follows: excessive competition, 11;<sup>1</sup> distribution of capital as ostensible profit, 2;<sup>2</sup> and unprofitable expansion, 1.<sup>3</sup>

**Excessive Competition.**—Excessive competition, as a cause for the failure of cooperative retail buying associations, can be interpreted in one or more of several ways. It may mean, for example, that the management was so poor that in spite of the real savings which should accrue to such an organization, it could not remain in a competitive market.

During a period of 10 years, one Eastern association was managed by two different men, each one of whom indicated his inability as a manager by the methods which he practiced. Some members paid for their stock in full; others did not. Members and non-members bought at the same prices, members receiving no dividend at any time on their cash investment. As a result, the membership became dissatisfied and uninterested and the company went into the hands of receivers and was liquidated.

It might mean that, in spite of fairly good management, the savings of this system of distribution were not enough to lift the company out of the competitive price market.

<sup>1</sup> These 11 associations were located in Newcastle and York, Pa., Amsterdam and Brooklyn, N. Y., Baltimore, Md., Cleveland, Ohio, St. Cloud, Minn., Oklahoma City, Okla., Sioux Falls, S. Dak., and Spokane and Seattle, Wash.

<sup>2</sup> These two associations were located in Philadelphia, Pa., and Norman, Okla.

<sup>3</sup> This organization was located in Canton, Ohio.

One example of this type is a Western association which went out of business in 1923 with the arrival of a chain of grocery stores in the territory and with the development of a series of small groups of independent retailers, fostered by service wholesalers. Another association operated in a small Eastern city for 10 years but at no time was successful, because it had the local competition of three large territorial service wholesale houses.

In other cases, however, it may mean that the meager services offered by cooperative retail buying associations are not sufficient to attract enough members or to retain a sufficient amount of the business of the membership to enable the association to operate with an efficient volume of business. Out of the 11 cases at hand, 1 failure was definitely the result of unusually weak management; 3 failed because retailers in their locality demanded service such as long term-credit, which the associations were not in a position to give; and 7 failed because they were unable to do more than meet current market prices.

**Private Management.**—One statement often made is that successful associations tend to come into the control of a limited group of the total membership, which continues it as either a semicooperative association or a privately operated company. Of the 18 drug, grocery, and hardware associations for which information is available, only 3 appear so to have changed. The majority were either closed up or sold out to competing service wholesale houses.

Business closed and assets sold.....	8
Purchased by a service wholesaler.....	6
Business operated as a service wholesale firm by a few of the original members.....	3
Business closed but reorganized as a cooperative association	1

Thus, it appears that there is little tendency toward a cycle in which a successful buying club becomes an incorporated cooperative retail buying association, which, if successful, in turn becomes a privately operated company.

**Conclusions.**—This material, then, leads to some rather definite conclusions:

1. Cooperating retailers do not buy so much as they believe they buy from their associations; nor do they buy so much as they could.

2. The question of race has little bearing upon the retail cooperation under study.

3. A study of the use of private brands by cooperatives gives no evidence that there is a greater degree of cooperation here than elsewhere.

4. The native independence of the owner of a small or medium-sized store indicates an impediment to the movement.

5. Successful cooperative retail buying associations are the result of the able management of one man or a small group of men in active charge of the business.

6. The outstanding single cause for the failure of a number of such associations is excessive competition.

## CHAPTER XIV

### THE PRESENT STATUS OF COOPERATIVE RETAIL BUYING ASSOCIATIONS

Cooperative retail buying associations at present are practically limited to the drug and grocery trades. After a study of approximately one-third of the total estimated number in operation in these two fields of distribution, it is clear that they, as a type of distributive organization, do not eliminate any function performed by other types of wholesalers. In the preceding chapters, however, it has been shown that they do reduce the cost of performing some of these wholesale functions, although the amount of these reductions is less than is commonly supposed.

**Savings Effected by Cooperatives.**—Based upon the statistical evidence to be found in Chap. IV, the total typical savings effected by cooperative associations in the grocery trade are approximately 4.5 per cent,<sup>1</sup> of which 2.5 per cent is a net saving to the retailer members and possibly to the consumer. The remaining 2 per cent represents a shift of performance to other wholesalers and to retailer members. This 2.5 per cent can be divided roughly as follows:

Saving in	Per cent
Selling expense.....	2.00
Losses from bad debts.....	0.10
Total executive and office salaries.....	0.40
	2.50*

\* A comparison of the respective costs of wholesale grocery and drug wholesalers shows an estimated saving effected by cooperatives in the drug field of 4.3 per cent of total net sales. This saving is estimated as follows:

Saving in	Per cent
Selling expense.....	3.20
Losses from bad debts.....	0.10
Total executive and office salaries.....	1.00
	4.30

<sup>1</sup> This figure of 4.5 per cent of total net sales is larger than 3.4 per cent, given on page 31 as the net saving in expenses of the most efficient cooperative grocery association over the total expenses of the most efficient service wholesaler. If associations and private corporations were both managed and operated with the greatest possible degree of intelligence, the savings of the associations, both apparent and real, would be less. The reason is obvious: The range between the average and the most efficient cooperative is less than that between the average and the most efficient service organization.



By far the largest single net saving is made in the reduction of the selling expense. A real saving is also effected by extending a limited credit, although part of the apparent saving resulting from the reduction of the amount of credit is merely shifted to the service wholesaler. Finally, a saving is made on overhead by reducing the supervision necessary to handle a large sales force and an extended credit system.

**Wholesale Net Profit.**—In addition to this actual saving of 2.5 per cent of the wholesale selling price, the retailer “saves” or, more exactly, assumes the profit earned by the service wholesaler which the cooperative association displaces. This profit, as reported by the Harvard Bureau of Business Research, was 0.7 per cent in 1924.<sup>1</sup> The total saving to the retailer, therefore, is 3.2 per cent of the wholesale price, or 2.6 per cent of the retail selling price.<sup>2</sup> Presumably, the retailer, as the owner of the cooperative wholesale house, does keep the equivalent of the 0.7 per cent as profit on his investment and compensation for the time given to the association. He should. There is no reason why a wholesaler should not earn a profit as a wholesaler just because at the same time he is a retailer handling the same line of merchandise. The cooperating retailer is in a position, therefore, to pass on legitimately 2.5 per cent of the wholesale or 2.0 per cent of the retail, price.

**Apparent Savings.**—The savings which appear to be the result of shifting expenses may be classified as follows:

	Per cent
Interest charges.....	0.75
Total receiving and shipping expense*.....	0.65
Total executive and office salaries and other buying expense.....	0.50
Miscellaneous expense.....	0.10
	<hr/> 2.00†

\* The figures for cooperatives are based upon associations which assume some of the delivery expense. For those who make no deliveries, this figure would be approximately 2 per cent greater.

† The estimated shifting of expense in the drug trade is 4.6 per cent of total net sales and includes the following:

	Per cent
Interest charges.....	1.15
Total receiving and shipping expense.....	2.10
Total executive and office salaries and other buying expense.....	1.15
Miscellaneous expense.....	0.20
	<hr/> 4.60

<sup>1</sup> *Bull.* 40, p. 11.

<sup>2</sup> The net profit in 1924 for 129 wholesale drug firms was 1.3 per cent, as reported in Harvard Univ. Bur. of Business Res., *Bull.* 50. Based upon the

The theoretical saving of one-half the total interest charge, or 0.75 per cent, is shifted. The association extends limited credit and carries limited stocks and, therefore, needs less capital. Longer credit and greater variety of stocks must be provided by other distributors, however, so the cost or interest charge is not saved but merely shifted.

For the same reason, some of the receiving and shipping expenses are shifted rather than saved. Some shipping expenses are shifted to the retailer by making fewer deliveries.

A part of the total executive- and office-salaries expense is listed as saved, because it represents a saving in overhead necessary to check credits and handle collections and to manage a normal wholesale sales force. The remainder is shifted because other wholesale houses are forced to extend longer credit and sell slow-moving merchandise to cooperating retailers.

**Manufacturers' Expenses.**—From the evidence presented, there is no reason to believe that it costs the manufacturer any more to sell to cooperative retail buying associations in the drug and grocery trades than it does to sell the wholesalers in each. It is true, however, that the cooperatives handle only about 5 per cent of the merchandise sold to wholesale distributors and are even yet the cause for protests upon the part of service wholesalers who threaten with a boycott manufacturers who sell to cooperatives and service companies alike. Sometimes, because of the relative importance of service wholesalers to the manufacturer, the manufacturer finds it advisable to cut off the cooperative. Today, this policy is more prevalent in the grocery trade.

**Wholesalers' Expenses.**—The service wholesaler, competing in the same general territory with a cooperative, is more affected. First, the cooperative takes some of its trade, and, second, it increases the cost of reaching that trade which remains. The service wholesaler loses a larger proportion of its city business to the cooperative, business which is cheaper to secure and to keep than "country" trade.

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retail price, this figure is 0.86 per cent. The total saving to the retail druggist is 5.6 per cent of the wholesale price, or 3.7 per cent of the retail price. Since the retailer, in his capacity as wholesaler, will probably deduct the wholesale profit, the net saving which he can pass on to the public by virtue of his being a member of a cooperative retail drug association is 2.8 per cent of the retail price.

In the third place, it not only retains poorer average credit risks, since the cooperative absorbs only high-grade ones, but, also, it is forced to extend credit to cooperators themselves at periods when the retail business most needs it. The result is that the service house presumably will find both its credit losses and its cost of maintaining and extending credit increasing.

Finally, the service house, the wholesaler commonly carrying the most complete stocks, is forced to carry the slower-moving items for cooperating retailers who regularly buy the bulk of the more profitable items elsewhere. Because of competition among themselves, the service houses sell such articles at a price below the average gross margin.

In assuming the responsibility of extending extra credit and complete stocks to cooperative retailers, the service wholesaler automatically increases his interest charges, total receiving and shipping expense, total executive and office salaries and other buying expense, and, possibly, miscellaneous expense.

**Retailer Members' Expenses.**—An indeterminate amount of the estimated 2 per cent, however, is assumed by the retailer member. He must advance capital out of his earnings on which he does not usually receive the going rate of interest and upon which he cannot earn the profit he might were it employed in his retail business itself. At the same time, he is inconvenienced, according to the policies of his own cooperative. Salesmen, upon whom he can legitimately depend for part of his market information, seldom call. Instead, he has to send in orders by telephone or mail at regular intervals, look to other middlemen for credit when credit is needed most, turn to other middle men for slow-moving items for which the consumer calls, and accept limited delivery service, especially in the grocery trade.

Aside from the savings which cooperative retail buying associations really do effect, there are three fundamental problems connected with their operation which affect their present and future economic value. These are: (1) large-scale operation upon a small surplus account, (2) reduced prices or concurrent rebates predicated upon anticipated expenses, and (3) management appointed by and entirely responsible to the customers to whom the management is selling. While the first two problems are not inherent in a cooperative system, they are common handicaps, limiting management and often jeopardizing the future of an association in favor of the present.

**Responsibility of Management.**—The third problem is even more important and is inherent in all types of retail cooperative effort. The management of a cooperative organization, no matter how efficient itself, is not employed by stockholders whose first interest is the company and its success. It is employed by "stockholders" whose first interest is in a retail establishment to which the cooperative sells. If and when the interests of the wholesale association and the retail stores, both of which are owned by the same group of men, diverge, these retailers will protect the retail store in which they have the major share of their financial investment and to which they give the most of their time and personal interest. The best management attainable at any price could not alter the case. Professor Moriarty has said: "Authority cooperation is less expensive than agreement cooperation."<sup>1</sup>

It has been pointed out that these interests do diverge. It is to the interest of a cooperative association to carry only small, fast-moving stocks, yet every member of an association purchases slow-moving merchandise. The association operates on the principle of cash prior to the order or payment within a few days after purchase, yet at certain periods most retailers need additional credit.

**Conclusion.**—Finally, the main reason given by retailers for joining cooperative associations is to secure merchandise at a lower net cost. While the estimated net savings of 2.5 per cent in the grocery trade and slightly over 4 per cent in the drug trade are average figures, it is true that some associations save more and that others save less. It is, also, true that on some lines or individual products the savings are greater than on others. If, in an individual case, the real or assumed savings appear to decrease to the point where the membership can or thinks it can purchase more economically elsewhere, it will do so. If an association tries to overcome some of these weaknesses by carrying a larger stock of merchandise, by extending longer credit, by increasing its services to its membership, by building up reserves, or by charging the list price and giving a rebate after the actual expenses have been paid, it must, at the same time, increase its selling price, and, when it does so, it approaches other types of wholesale distributors.

<sup>1</sup> Federal Trade Commission *vs.* Nat. Biscuit Co., testimony, p. 1511.

## CHAPTER XV

### THE FUTURE OF COOPERATIVE RETAIL BUYING ASSOCIATIONS

Cooperative retail buying associations are limited to those trades the products of which they can economically handle.

**Product Limitations.**—Concerning the product, it is obvious that consumer goods which are commonly sold by producers direct to retailers cannot be distributed through any wholesale enterprise. Further, cooperative associations cannot distribute, in quantity, such perishable goods as fresh vegetables, meats, yeast, candy, and crackers. Neither can they commonly handle style goods, such as jewelry, hosiery, shoes, or men's or women's style clothing; nor specialty items including many household electric appliances, household aluminum ware, sporting goods, paints, and varnishes. Finally, heavy or expensive purchases such as automobiles and heavy household equipment are not commonly sold through any type of wholesale distributor.

**Limitation of Method of Distribution.**—Concerning the method of distribution, cooperative associations are not in a position to act as satisfactory exclusive agencies and, therefore, are not desirable distributors for merchandise commonly sold under such a plan.

**Geographical Limitations.**—As to geographical limitation, cooperative retail buying associations can be economically located only in cities of more than 200,000 population for the drug trade and 50,000 for the grocery trade. In these cities, experience indicates that seldom will the number of retailers who are members of one cooperative association equal more than 50 per cent of the total number of retailers operating in the city. The wholesale drug houses of all types located in such cities as those suggested above would serve a population of less than 45,000,000, while those in the grocery trade would reach less than 55,000,000, both out of a total population of 113,000,000 in 1925.

For that merchandise not excluded and in those territories not eliminated, cooperative retail buying associations find their

legitimate field and are in a position to effect the greatest economy in distribution.

**Competitive Limitations.**—The future of cooperative retail buying associations rests directly upon the future of the independent or unit retailer. As has been shown, chain stores now handle over 10 per cent of the retail drug trade and almost 40 per cent of the retail grocery trade, and there is no reason to believe that they have expanded to their greatest extent. There are localities such as Boston, Cincinnati, Cleveland, Jersey City, and Norfolk, in which the competition in the grocery field is not only between independent and chain stores but also between different chains. While these particular communities may present a balanced ratio between the two methods of retail distribution, the country at large continues to produce an increasing number of new chain stores.

In the absence of reliable operating figures for chain stores, inductive reasoning must be resorted to, to determine the savings as well as the source of savings which can be expected from them. In the first place, although sufficient statistical evidence is lacking, there is little doubt but that chain stores even of medium size can purchase some merchandise direct from manufacturers at prices which are lower than those offered wholesale houses. Such a practice, be it good or bad, is usually predicated upon certain rebates which are given the chain customer in return for special advertising or sales efforts.

**Comparison of Chain System and Service Distributors.**—Since the scope of the activities of a system of chain stores covers those performed by both service wholesale houses and retail stores in the same trade, their total operating expenses should be considered in the same light. The following outline expresses such comparison:

DEGREE OF SAVING EFFECTED BY CHAIN GROCERY STORES OVER THE COM-  
BINED OPERATION OF SERVICE WHOLESALERS AND INDEPENDENT  
RETAILERS

## I. Total selling expense:

At wholesale, 26 per cent of the total wholesale expense.<sup>1</sup> Although a chain system uses no salesmen to solicit its own retail stores, it does employ supervisors who have charge of a limited number of stores. The chain store has no great advantage here.

At retail, 62 per cent of the total retail expense.<sup>2</sup> Chain stores save at this point, since their sales per retail salesperson are higher. Part of this saving may be at the expense of the consumer, who may have to wait his turn to be served.

## II. Total receiving and shipping expense:

At wholesale, 20 per cent of the total wholesale expense. The chains effect a slight saving. They can be more arbitrary about making deliveries to their own stores.

At retail, 10 per cent of the total retail expense. Chain systems save at this point, since most do not deliver at all at retail and the remaining ones give very limited delivery service. This saving, however, represents an increased cost or inconvenience to the ultimate consumer.

<sup>1</sup> TOTAL EXPENSE OF WHOLESALE AND RETAIL GROCERY FIRMS DIVIDED  
ACCORDING TO CERTAIN EXPENSE ITEMS

	Wholesale* 1923		Retail† 1924	
	Percentage of total sales	Percentage of total expense	Percentage of total sales	Percentage of total expense
Total selling expense.....	2.75	26	11.25‡	62‡
Total receiving and shipping expense.....	2.15	20	1.8	10
Total executive and office salaries.....	2.00	19	‡	‡
Other buying expense.....	0.42	4	0.2	1
Other overhead expense.....	1.14	11	2.45	14
Total interest expense.....	1.5	14	1.1	7
Miscellaneous expense.....	0.2	2	0.8	2
Losses from bad debts.....	0.4	4	0.4	2
	10.6§	100	18.00	100

\* Harvard Univ. Bur. of Business Res., *Bull.* 40, 1923.

† *Ibid.*, *Bull.* 52, 1924.

‡ Total executive and office salaries for retail grocery stores are included in the figure given as total selling expense. For that reason, the figure of 62 per cent includes more than total selling expense.

§ The total of 10.6 per cent is the corrected total expense (see *Bull.* 40, p. 11).

<sup>2</sup> The total of 62 per cent is too high for the retail selling expense. It includes total executive and office salaries, which were not segregated by the bureau for retail grocery stores.

III. Total executive and office salaries:

At wholesale, 19 per cent of the total wholesale expense. Approximately the same.

At retail.<sup>1</sup> Chain systems presumably have a higher expense if the clerical service maintained to control the operation of the retail unit is included. (Store supervisors should not be included here.)

IV. Other buying and office expense:

At wholesale, 4 per cent of the total wholesale expense. Approximately the same.

At retail, 1 per cent of the total retail expense. Approximately the same.

V. Other overhead expense:

At wholesale, 11 per cent of the total wholesale expense. Approximately the same.

At retail, 14 per cent of the total retail expense. Approximately the same, although, as the result of carefully locating retail chain units, their rent may be higher.

VI. Total interest:

At wholesale, 14 per cent of the total wholesale expense. Less for chains, for while the chain systems probably have as much money tied up in buildings and equipment, they carry less variety in stock and do not extend long credit terms to their retail units.

At retail, 7 per cent of the total retail expense. Less, because the chain system maintains a higher rate of turnover in its retail units, carries small stocks, and has less equipment per store.

VII. Miscellaneous expense:

At wholesale, 2 per cent of the total wholesale expense. Approximately the same.

At retail, 4 per cent of the total retail expense. Approximately the same.

VIII. Losses from bad debts:

At wholesale, 4 per cent of the total wholesale expense. Less, since the chain system "sells" to itself.

At retail, 2 per cent of the total retail expense. Less, since the chain store does not normally extend any credit. Again, this saving represents an increased cost or inconvenience to the ultimate consumer.

In operation, then, chain systems make a saving in their wholesale operations by reducing the cost of performing the duties of receiving and shipping, by lower interest charges, and by eliminating losses from bad debts. This saving is confined to 38 per cent of the total expense of the average grocery

<sup>1</sup> See footnote 2 (p. 148).



wholesale house.<sup>1</sup> On the other hand, the chain system operates its retail stores at a lower cost than do the average independent retailers by reducing the selling cost, delivery, total interest charges, and losses from bad debts. This saving is confined to some figure less than 81 per cent of the total expenses of the average retail grocery store.<sup>2</sup>

There is no reason to believe that the wholesale operations of the chain are in any way more expensive than those of the service wholesaler. It is probably true, however, that total executive and office salaries are higher in operating the retail end of the chain system than they are for independents, although the percentage of this expense to the total expense is indeterminable.<sup>3</sup>

<sup>1</sup> RANGE OF POSSIBLE SAVINGS EFFECTED BY CHAIN SYSTEMS IN THE GROCERY TRADE

	Chain expenses					
	Lower, per cent		Same, per cent		Higher, per cent	
	Wholesale	Retailer	Wholesale	Retailer	Wholesale	Retailer
Total selling expense.....	..	62*	26			
Total receiving and shipping expense.....	20	10				
Total executive and office salaries.....	..	..	19			*
Other buying and office expense.....	..	..	4	1		
Other overhead expense.....	..	..	11	14		
Total interest.....	14	7				
Miscellaneous expense.....	..	..	2	4		
Losses from bad debts.....	4	2				
Total.....	38	81*	62	19	0	*
			38	81		
			100	100		

\* See footnote 2 (p. 148).

<sup>2</sup> See footnote 2 (p. 148).

<sup>3</sup> The writer has studied the profit-and-loss figures for some 12 typical chain grocery-store systems operating from 25 to 100 stores each. These figures indicate that the average total expense of such firms is about 18 per cent, and the average gross margin, about 20 per cent. These assumed figures are comparable to the Harvard figures for independent retail and wholesale companies, with the exception of interest on the capital invested. The figures given above do not include interest charges or any form of corporation profits. The figure most comparable to this 20 per cent gross margin is 28.9 per cent, which is the combined gross margins of the independent retailer and wholesaler, the wholesale figure reduced to the same base as the retail figure.

**Chain-store Savings.**—From the above analysis, it seems evident that the total savings of chain stores are made through (1) special reductions in the purchase price, (2) economies in operation and (3) curtailed services to the public. Other types of distributors may combine to secure a lower purchase price; further, they can offer the public a limited variety of services. But chain systems can increase, either with or without these advantages, until, for whatever reasons, they have increased their total expenses to the level of other types of distributors, or until other types of distributors have reduced their combined expenses to the point equal to or lower than that common to chain stores.

**Comparison of Associations and Service Distributors.**—Independent or unit retailers have turned to cooperative retail buying associations as one method to reduce distribution expenses. It has been shown that these associations effect some economies, limited to the wholesaling function. In order to compare the potential savings of this method with that developed by chain stores, it is necessary, first, to compare it with a common base, distribution through the service wholesaler and his customer, the independent retailer.

DEGREE OF SAVING EFFECTED BY COOPERATIVE ASSOCIATIONS AND INDEPENDENT RETAILERS OVER THE COMBINED OPERATIONS OF SERVICE WHOLESALERS AND INDEPENDENT RETAILERS

- I. Total selling expense:
  - At wholesale, 26 per cent of total wholesale expense. Real saving, estimated to be 2 per cent of total net sales.
  - At retail, 62 per cent of total retail expense.<sup>1</sup> Not affected.
- II. Total receiving and shipping expense:
  - At wholesale, 20 per cent of total wholesale expense. Approximately the same unless association does not deliver to its members.
  - At retail, 10 per cent of total retail expense. Not affected.
- III. Total executive and office salaries:
  - At wholesale, 19 per cent of total wholesale expense. Real saving, estimated to be 0.4 per cent of total net sales.
  - At retail.<sup>2</sup> Not affected.
- IV. Other buying and office expense:
  - At wholesale, 4 per cent of total wholesale expense. Approximately the same.
  - At retail, 1 per cent of total retail expense. Not affected.

<sup>1</sup> See footnote 1 (p. 148).

<sup>2</sup> See footnote 2 (p. 148).

## V. Other overhead expense:

At wholesale, 11 per cent of total wholesale expense. Approximately the same.

At retail, 14 per cent of total retail expense. Not affected.

## VI. Total interest:

At wholesale, 14 per cent of total wholesale expense. Less, since associations do not pay current interest rate on all money and do not extend long credit.

At retail, 7 per cent of total retail expense. More, since retail member has investment in wholesale house for which he does not receive full return.

## VII. Miscellaneous expense:

At wholesale, 2 per cent of total wholesale expense. Approximately the same.

At retail, 4 per cent of total retail expense. Not affected.

## VIII. Losses from bad debts:

At wholesale, 4 per cent of total wholesale expense. Real saving, estimated to be 0.1 per cent of total net sales.

At retail, 2 per cent of total retail expense. Not affected.

The first outstanding fact to be noticed about this method, particularly in comparing it with the cost of operating a chain of retail stores, is that its use by independent retailers of a cooperative retail buying association brings economies only in the wholesale end of the business; the retail business of the cooperator may not be at all improved.<sup>1</sup> In other words, the potential

<sup>1</sup>RANGE OF POSSIBLE SAVINGS EFFECTED BY COOPERATIVE RETAIL BUYING ASSOCIATIONS IN THE GROCERY TRADE

	Cooperative expenses					
	Lower, per cent		Same, per cent		Higher, per cent	
	Wholesale	Retailer	Wholesale	Retailer	Wholesale	Retailer
Total selling expenses.....	26	.	...	62*		
Total receiving and shipping expense.....	..	.	20	10		
Total executive and office salaries.....	19	.	...	*		
Other buying and office expense	..	.	4	1		
Other overhead expense.....	..	.	11	14		
Total interest.....	14	.	...	...	.	7
Miscellaneous expense.....	..	.	2	4		
Losses from bad debts.....	4	.	...	2		
	63	0	37	93	0	7
			63	7		
			100	100		

\* See footnote 2 (p. 148).

savings of cooperative retail buying associations are limited to wholesale costs, which in the drug trade are less than one-fourth and in the grocery trade less than one-third the total cost of distribution after the merchandise leaves the hands of the manufacturer. While the chain store is saving both at wholesale and at retail, the cooperating retailers are saving only at wholesale. And approximately one-half of this apparent saving is not real.

**Fundamental Weakness of Associations.**—Cooperative retail buying associations are established as a defensive measure in an effort by the independent or unit retailer to hold or regain his competitive position in his local market. While the future of cooperative associations depends entirely upon the future of the independent merchant, the success of this merchant does not depend upon the association he has created. In addition to the cooperative association, the retailer turns to cash-and-carry wholesalers, desk jobbers, wagon wholesalers, and others. Most of his purchases, however, are made from the service wholesaler, who, at the present time, offers the retailer a variety of services, such as 10 per cent off on fast-moving items, cash-and-carry service on certain lines, and buying privileges. Within the past 3 to 5 years, the service wholesaler, especially in the drug and grocery trades, has been attempting to adjust his business to the needs of the retailer for mutual benefit. At present, the most common method of cooperation between so-called "service wholesalers" and independent retailers has been fostered by those who are called "contract wholesalers." Retailers who have contracted with some wholesaler are called, by many, "members of a voluntary chain." When this term is used, however, it usually includes cooperative associations.<sup>1</sup>

**Contract Wholesalers.**—The main purpose of the contract wholesaler is not to reduce the cost of wholesale distribution but to improve the merchandising end of the retail store.<sup>2</sup> When a

<sup>1</sup> See articles by Haase and Pelz in February, March, April, and May issues of *Printers' Ink Monthly*, 1929.

<sup>2</sup> It is often said that an alert retailer is the match of the most progressive unit of a well-managed chain system. Such a statement is, no doubt, true, but such an independent retailer soon outgrows one unit and starts a chain of his own. This has been the history of practically every chain system.

The contract wholesaler, however, attempts to do for the less alert independent retailer what he has never realized he could do or has never been able to do for himself—that is, improve his policies and methods of management and operation.

contract is signed, that contract emphasizes (1) large-scale buying upon the part of the wholesale house, (2) concentration upon the private brands of the wholesaler or the creation of a wide line of privately branded merchandise to be sold exclusively by contracting members of the organization, (3) the advertising of this brand by the wholesaler, (4) the "chainizing" of the independent retail units by adopting a uniform store front and interior arrangement and, through the use of a uniform emblem, color, window and interior trims, newspaper advertising and customer leaflets, and (5) price. Usually, the wholesaler promises to make price concessions on certain types of merchandise if the retailer will promise to buy a certain proportion of his total purchases from the wholesaler.

So far, not much large-scale buying has been resorted to by the centralized systems. Private brands are being emphasized. One system pushes two private brands—one a quality product, one a price product. The last three purposes are emphasized by most such systems.

**Comparison of Contract and Service-distribution Systems.**—This type of organization, at present, is the most important potential competitor of the cooperative retail buying association in protecting the independent retailer from chain stores.<sup>1</sup> Like the chain store, it promises to reduce both wholesale and retail expenses, and without any investment upon the part of the retailer. A comparison of the method of distribution offered by the contract wholesaler and that offered by the regular service wholesaler follows:

DEGREE OF SAVING EFFECTED BY CONTRACT WHOLESALERS AND  
INDEPENDENT RETAILERS OVER THE COMBINED OPERATION OF  
SERVICE WHOLESALERS AND INDEPENDENT RETAILERS

I. Total selling expense:

At wholesale, 26 per cent of the total wholesale expense.<sup>2</sup> Less.  
Customers are under contract to buy a varying percentage of their stock from one source.

At retail, 62 per cent of the total retail expense.<sup>3</sup> Slightly less,  
since, through rearrangement of fixtures and stock, the individual

<sup>1</sup> Officials of the Independent Grocers Alliance claim that in 1927 their wholesale members saved 2 per cent on total net sales; that in 1928 they expected to save 1½ per cent more; and that their total expenses would eventually equal 7 per cent of their net sales. *Wall Street Jour.*, p. 7, Sept. 22, 1928.

<sup>2</sup> See footnote 1 (p. 148).

<sup>3</sup> See footnote 2 (p. 148).

clerk can increase his sales. Advertising expense would probably be slightly higher.

II. Total receiving and shipping expense:

At wholesale, 20 per cent of the total wholesale expense. Approximately the same.

At retail, 10 per cent of the total retail expense. Not affected, unless the service retailer changes his store into a cash-and-carry establishment. In such case, he is in the same position as the chain store.

III. Total executive and office salaries:

At wholesale, 19 per cent of the total wholesale expense. Approximately the same.

At retail,<sup>1</sup> less, since improved store arrangement, concentrated buying, and new merchandising methods should increase the volume of sales without increasing the overhead in proportion.

IV. Other buying and office expense:

At wholesale, 4 per cent of the total wholesale expense. Approximately the same.

At retail 1 per cent of the total retail expense. Approximately the same.

V. Other overhead expense:

At wholesale, 11 per cent of the total wholesale expense. Approximately the same.

At retail, 14 per cent of the total retail expense. Approximately the same.

VI. Total interest:

At wholesale, 14 per cent of the total wholesale expense. Less. Under such a method, smaller stocks would be carried and less credit extended the retailer.

At retail, 7 per cent of the total retail expense. Less, since the retailer would carry a smaller stock of merchandise, which would turn more rapidly.

VII. Miscellaneous expense:

At wholesale, 2 per cent of the total wholesale expense. Approximately the same.

At retail, 4 per cent of the total retail expense. Approximately the same.

VIII. Losses from bad debts:

At wholesale, 4 per cent of the total wholesale expense. Less, since customers are carefully selected.

At retail, 2 per cent of the total retail expense. Not affected, unless the store changes to the cash method.

When properly managed and operated either as a centralized organization or by an individual service wholesaler, this method of distribution offers potential savings, confined to 44 per cent of the total wholesale expense and 69 per cent of the total retail expense without increasing any wholesale or retail expense

<sup>1</sup> See footnote 2 (p. 148).

over and above that figure common to the average service wholesaler and independent retailer.<sup>1</sup>

A comparison of these figures for chain systems, cooperative retail buying associations and their retailer members, and contract wholesalers and their retailer customers indicates that the range of potential saving among the wholesale expenses is greatest for the cooperative and about the same for the chain and contract wholesaler. It also indicates that the range of retail saving is greatest for the chain and least for the cooperative.

	Newer method*					
	Lower, per cent		Same, per cent		Higher, per cent	
	Whole- saler	Retailer	Whole- saler	Retailer	Whole- saler	Retailer
Chain system.....	38	81†	62	19	0	†
Cooperative association.	63	0	37	93	0	7
Contract wholesaler.....	44	69	56	31	0	0

\* All three methods are compared with the common base—the service wholesaler and independent retailer—and are here called “newer methods.”

† See footnote 2 (p. 148).

# <sup>1</sup>RANGE OF POSSIBLE SAVINGS EFFECTED BY CONTRACT WHOLESALERS IN THE GROCERY TRADE

## Contract wholesaler expenses

	Lower, per cent		Same, per cent		Higher, per cent	
	Whole- saler	Retail- er	Whole- saler	Retail- er	Whole- saler	Retail- er
Total selling expense.....	26	62*				
Total receiving and shipping expense.....	..	..	23	13		
Total executive and office salaries.....	..	*	19			
Other buying and office expense	..	..	4	1		
Other overhead expense.....	..	..	11	14		
Total interest.....	14	7				
Miscellaneous expense.....	..	..	2	4		
Losses from bad debts.....	4	..	..	2		
	41	69	56	31	0	0
			44	69		
			100	100		

\* See footnote 2 (p. 148).

These figures as they stand, however, are not comparable and do not give a quick picture of the situation. The wholesale and retail percentages are each based upon different selling prices but can be reduced to the same one, by changing the wholesale gross margin from 11.3 per cent of the wholesale selling price to 9.1 per cent of the retail selling price.

In the second place, the retail expense percentages should be given greater weight, since they equal two-thirds of the combined expenses.<sup>1</sup> Placed upon the same base, weighted according to their relative importance, and combined into a single figure, the ranges within which savings can be made by the three different types of wholesale-retail distribution are as follows:

	Newer method		
	Lower, per cent	Same, per cent	Higher, per cent
Chain system.....	67*	32	*
Cooperative association.....	21	74	5
Contract wholesaler.....	61	39	0

\* See footnote 2 (p. 148).

Without having any concrete knowledge of the potential or actual savings effected by these three types, a comparison of the range within which savings can be effected illustrates clearly the disadvantage under which the cooperative retail buying association operates, because it is organized for and usually limits its activities to those of reducing the wholesale expenses. Its possibilities are one-third those of the other two. Because exact figures are lacking, no detailed comparison of the relative effectiveness of chain stores and contract wholesalers can be made.

**Weakness of Contract Wholesaler.**—Contract wholesaling, like the cooperative association, is a defensive method of doing business. It has been only within the past few years that the

<sup>1</sup> The wholesale gross margin of 11.3 per cent is 9.1 per cent of the total retail sales volume. The total wholesale expense figure of 10.6 per cent is 8.6 per cent of the retail sales volume. The combined total expense of these two distributors in the grocery trade is 8.6 plus 18.0 per cent (retail), or 26.6 per cent. The wholesale expense of 8.6 per cent is approximately one-third of this figure.



service wholesaler, awakened to the fact that his future depended upon that of the independent retailer and the fact that chain stores were growing at an increasing rate, has given much attention to his customers and their welfare. While there is no evidence to prove that the system which has developed, especially in the grocery trade, is more or less effective than the chain system, it is apparent that, with equal management ability, it should prove more effective than cooperative associations.

It is, also, true that cooperative associations can, and some do, effect retail economies. Through the increased use of cooperative advertising, better business departments, and merchandising departments, they are improving the retail business of their customers. The point is, however, that the cumbersome financial and managerial organization of the cooperative is not absolutely necessary to secure the benefit of such improved retail methods.

**Summary.**—To sum up the relative position of these three systems of distribution: The chain system and the contract wholesaler system with a centralized organization can buy at slightly lower wholesale prices from the manufacturer than can the decentralized contract wholesaler and the cooperative retail buying association. Both the chain system and the contract wholesaler system have a greater opportunity to reduce wholesale and retail expenses than does the cooperative. Although neither the chain nor the cooperative earns a wholesale profit as such, the former presumably earns a return on its capital invested in the wholesaling end of the business and on its managerial ability, which gives its attention to wholesaling. The members of cooperative retail buying associations receive some interest on their investment and themselves earn the profit of the wholesaler they displace. Such profit is earned by the retailer and not the consumer and, therefore, should not be passed on to the latter. The contract wholesaler, on the other hand, must earn a reasonable profit upon his invested capital and in proportion to his managerial ability, or his business is declared unprofitable without the opportunity afforded by the other two methods of recouping in the retail end of the business.

In the next place, the wholesale and retail ends of the chain method are coordinated to the highest degree, because both are owned and operated as one corporate unit. The wholesale unit may be operated at a higher expense than that of a competing service wholesale house. Several individual chain outlets may have higher total expenses than competing independent stores.

But, if the corporation as a whole is operating at a profit, it will continue in business. Voluntary chains, on the other hand, have spheres of managerial interests within themselves.<sup>1</sup> If one store in either a cooperative or a contract group fails, over a period of time, to earn a profit, it drops out. Although the wholesale organization of a cooperative retail buying system might conceivably operate for a long period of time with higher expenses than a competing service house, in practice it would quickly lose the patronage of its members. Certainly, if the character of the management of the contract wholesaler is not such that it pays the retailers to renew their contract, that wholesaler will disappear as such, although the retail stores may continue in business.<sup>2</sup> The unity of financial interest and the centralization of authority give the chain method an important advantage over both other types.

Finally, all three types can offer varying degrees of service to the individual consumer. While the chain system was the first consistently to curtail services to fit the desires of different groups of consumers, the contract wholesaler is encouraging the independent retailer to do the same. The cooperative retail buying association has been slow in recommending such curtailment.

### CONCLUSION

The conclusion of such a study must be fourfold: from the point of view of the cooperative retail buying association; from that of the manufacturer who sells, or may be requested to sell, to such an association; from that of the service wholesaler who

<sup>1</sup> Alfred Marshall wrote: "An army commanded by a committee has seldom given a good account of itself." "Industry and Trade," p. 294, The Macmillan Company.

<sup>2</sup> "It is interesting to observe that the wholesalers who are concerned in the wholesaler-retailer cooperative groups are divided in their views as to the best set-up for such groups. No matter whether the plan you are following is the ultimate solution for all your problems, it undoubtedly is a great help in meeting competition under present conditions. Its permanent success depends upon your loyalty to the idea. Recently I visited an Eastern city and found that a wholesaler-retailer group, which at one time operated 1,200 stores successfully, was having store after store go out of business. After investigation, I found that it was due to nothing else than lack of loyalty. The retailers in this group had been cheating—bootlegging—orders to other wholesalers. I venture to say that the greatest danger in the future of wholesaler-retailer cooperative organizations of all kinds is this matter of disloyalty." Craig Davidson, *San Francisco Grocer*, Mar. 1, 1928.

competes with the association; and from the point of view of the retailer who is, or may be asked to be, a member of a cooperative organization.

**Point of View of Association.**—From the standpoint of the cooperative association, too much emphasis has been placed upon the reduction of wholesale costs, while the retail members have been largely left to handle their own business as they saw fit. Those cooperative retail buying associations which have been outstanding successes, primarily because of the excellency of their management, will continue to grow. With good management, other associations can be founded and advanced to an outstanding position. It appears, however, that the average retail buying association will rise and fall, as do all types of commercial organizations, failure being due largely to excessive competition. It seems evident, moreover, that the contract and mutual wholesaler will continue to take the place of the cooperative retail buying association. Associations must give more attention to the reduction of retail costs if they are to continue in competition with these newer types.

**Point of View of Manufacturer.**—From the point of view of the manufacturer, the cooperative offers a small market, but one which is not expanding so rapidly at present as that of the contract and mutual wholesaler. At present, these two types, in the grocery and drug trades, respectively, offer the manufacturer the most aggressive wholesale distribution at the potentially smallest cost to the consumer.

**Point of View of Service Wholesaler.**—From the point of view of the service wholesaler, the cooperative retail buying association, together with other types of new or independent wholesale organizations, should be given less concern. Attention should be concentrated on the various methods, such as contract or mutual, by which the service wholesaler can protect his market—the independent retailer—and thereby insure his own future.

**Point of View of Independent Retailer.**—Finally, from the point of view of the independent retailer who is already a member of a carefully organized cooperative association, that association should be urged to follow the suggestions listed above—that is, to take steps to increase the merchandising ability of its members. From the point of view of a retailer who is not a member of any such association but who is pressed by chain-store competition, the legitimate contract or mutual wholesaler offers possibilities.

## **APPENDICES**



## APPENDIX A

### COOPERATIVE DISTRIBUTIVE EFFORTS EXCLUDED FROM THIS STUDY

1. The discussion does not include consumers' cooperative stores nor any wholesale societies selling exclusively to them. While such organizations are common in England, Denmark, and Germany, they have made little progress in the United States. Only two such wholesale societies are known: the Central States Cooperative League and the Cooperative Central Exchange. Combined, they represented 92 stores in 1927. One did an annual business of slightly more than \$1,000,000 in 1927.<sup>1</sup>

2. The study does not include the buying club, an informal type of cooperation among retailers commonly organized to pool the buying power of its membership in order to secure quantity discounts, its operation being in the hands of one or all members, usually acting without pay. There are three types: (a) Each member of a pool, club, or supply exchange may obligate himself for the purchase of one rapidly moving item. This method is prompted by the desire to secure quantity discounts and the unwillingness of most manufacturers to sell to a club as a unit. The member buyer is responsible to the other members for the merchandise and to the seller for payment. The difficulty comes in equalizing these two responsibilities. In all cases, the entire amount of goods must be received at one time and payment made in a lump sum, usually within a few days after delivery. Each member draws upon his proportion of the supply as he needs it and usually pays cash at that time. While each member is equally responsible for the purchase of one item, some members overdraw, while others fail to take the quantity for which they have obligated themselves, with the usual loss to the buyer, consequent mistrust, and eventual disintegration. Ordinarily, because those who do the buying receive no advantage over that

<sup>1</sup> See "The People's Yearbook," issued annually by the Cooperative Wholesale Soc., Manchester, England.

Buying clubs, however, do not last long.<sup>1</sup> Many are organized for a temporary purpose. Others fail to fulfil expectations and disappear. Disorganization is made easy, since no money is involved and no employees are thrown out of work. Nothing is abandoned except an agreement, usually oral. The remainder, which prove successful, develop into associations,<sup>2</sup> the form of organization under observation in this study.<sup>3</sup>

capital, plus actual operating expenses, at present set at 1 per cent for sugar, 2 per cent for milk, 4 per cent for staples, and 6 per cent for special orders. The retail members must make a cash deposit of \$250 and do their buying through the Walker Co. *Interstate Grocer.*, Jan. 28, 1928.

<sup>1</sup> Dr. E. L. Newcomb, secretary of the Nat. Wholesale Druggists Assoc., writes: "There are innumerable local buying clubs. These continually spring up all over the country. Some of them last a few weeks; others have been in existence for many years. I know of no list of them, and if a list were made, it would not be accurate very long, because changes are so frequent."

<sup>2</sup> Practically all old associations in operation today started as informal buying clubs. Examples in the drug trade include Northwestern Drug Co., Minneapolis; Calvert Drug Co., Baltimore; and Union Wholesale Drug Co., Boston. Examples in the grocery field include Associated Grocers, St. Louis; Minneapolis Allied Grocers, Inc.; Central Wholesale Grocers, Inc., Chicago; and United Grocers, Inc., San Francisco.

<sup>3</sup> The following testimony given by J. B. Higgins, a Chicago retail grocer, before the Federal Trade Commission, in 1922, illustrates the difficulties of buying clubs:

Q. Mr. Higgins, in your own experience as a retail grocer, have you had occasion to observe the working of pool purchases?

A. I have.

Q. Will you tell the examiner, if you please, what has been your observation and experience in reference to pool purchasing?

A. Well, in pool purchases, when you get three or four retailers together you can't ever get them to agree or get them to stock. It does not work out. Each and every individual one wants to get a better price than you get.

Q. Did you find it practicable to run business that way?

A. Personally, I did not find it practical.

Q. Why was it impracticable?

A. Why, we pool different things, of course; in that business I am in out there, I am able to buy in large quantities to enable me to get the discount, not only in biscuits but also in soaps and other things; and these other fellows not being able to buy in quantities, I hold the bag; and in purchasing anything, they want so much of this and so much of that, and I buy it and get it in the store and have to sell it to them at just what it costs, and in nearly every instance I have got to take a loss on it. One instance in particular, if you want me to tell about it, was on Red Wing grape juice, handled by the A. & P., a strong competitor; in buying direct I would have to buy 15 cases to enable me to get the 20 per cent discount. I called each

up and there were five going to buy. I sold most of the quart size; I got 10 quarts and 5 pints. They all wanted a few cases, before I bought it, and I ordered it on the strength of that, but when it came in, they did not sell any quarts, they wanted pints; so, I had ten cases of quarts and they took one each of the pints. So, I asked each one how much they wanted, and I would reorder; so, I got ten cases of pints and five cases of quarts. Twenty per cent is quite a saving. The goods came in, and when they came in, I called each one up, and the one case that they had bought they still had, and the one case that they had bought was still enough for them. Still, at the same time I had these extra quarts, and I had these ten cases of pints of grape juice on my hands. So, I was not making a penny for the service; I would have to get the goods in and have somebody to take it down to them and everything that way.

Now, 6 weeks ago, a party by the name of George Behansky came over. I buy Foulds goods; there is a list of \$1.80 a dozen on them, and I buy it practically cheaper than the jobber, because Foulds, in addition to the discount, gives a retailer 15 cents a case for advertising allowance. From a list of \$1.80 it brings it down to \$1.44. George came over and asked me to help him out, he and another fellow by the name of Pohlen, who was going to pool. So, he gave me an order for 22 cases, and I called up this Foulds Milling Co. and ordered 50 cases. Now, that is 6 weeks ago; the stuff has come in; I have paid for it; I don't make a penny on it. When I sell it to them I have to wait 30 or 60 days. In every instance, where we have pooled, and we have bought, there is one fellow to hold the bag. And in this pooling if there is five or six or ten get together, each individual grocer wants to be at the head of it, or one wants to get more than the other; there is envy there. I never saw a pool work in all my experience; I have seen them spring up, and they can't seem to work together.

Now, I was on the road for the N. K. Fairbanks Co. during the war, and I had Indiana as my territory. Our policy to the retailer was to sell through the jobber only, unless it was a case where we could benefit the line by selling direct; we insisted a retailer should take 50 cases. One instance I had down at Bluffton, Ind.; there is a party down there by the name of J. H. Painter, and two others; he was interested in three stores. I went in and spoke to him, and he said: "I won't buy your products or sell them unless you sell direct, to save that 10 per cent jobbing discount." So I told him I would sell him direct. It would not conflict with any jobber, because 50 or 60 miles was the nearest jobber. But he said: "You will have to go around; there are 18 grocers, and only 10 I will sell; you will have to see these 10." I went around to these 10 that he told me, and got their orders for him; and sold him the 50 cases and had it signed for. A few weeks later—during this time peace was declared—the goods had been shipped from Chicago and arrived at Bluffton. He wrote in to the company and said he would not accept it. Here were 50 cases of goods lying down at Bluffton, on a signed order, a pooled order. I was called to Chicago and sent down there at great expense, and put it up to him in a business way, and told him the position he had put me in; and he told me, "Well, go around and see these other fellows, and see what you can do." I went



3. Group buying among department stores<sup>1</sup> has been given much attention lately. It is a method by which the buyers of independently owned and operated retail stores meet at stated intervals and select merchandise which is purchased through the group on quantity discounts to be delivered to and paid for individually by the retail-store members.<sup>2</sup>

Such groups carry on two types of buying activities: resident and group buying. As resident buyers, specialized buyers in the central office, usually located at New York City, receive orders from member stores, go into the market, and make purchases in the name of the store, which, in turn, receives the merchandise direct from the seller and pays for it. Some of the groups charge commission for such work, in exactly the same manner common to independent resident buyers. Others refund this discount on a basis of individual purchases.

Group buying, or that part of the activities of a group which has been so severely criticized by some manufacturers as well as by other distributors, is operated on a different basis. The dress buyers of all member stores, for example, meet in the New York

around, and I did not sell quite enough; I had to hire a taxi and go to Markle and these other jerkwater towns, trying to dispose of that 50 cases. The outcome was I sold enough to dispose of it, and Mr. Painter took this shipment out; and there was \$15 demurrage charges on this shipment; and the expense of disposing of it. So, in all the experience I have had with these pools, they can't get together and work out satisfactorily.

Q. Now, Mr. Higgins, are these men that you had this experience with, these grocers, are they fairly representative grocers, men that you knew and trusted and respected?

A. Personal friends; well fixed financially, doing a big volume of business, and capable of getting a discount for themselves. Federal Trade Commission *vs.* Nat. Biscuit Co., testimony, pp. 1125-1127.

<sup>1</sup> The only other trades in which group buying is important is men's clothing and furniture. One example in the furniture trade is the Allied Furniture Buyers Syndicate, Inc., which was organized at Portland, Me., in February, 1928. Others are Associated Furniture Corp., Detroit; Century Furniture Buyers Assoc., Hartford, Conn.; Commercial Associates, Inc., Chicago; United Furniture Buyers Assoc., Council Bluffs; Wayne Purchasing Syndicate, Dayton; and Syndicate Trading Co., New York City. *Retail Ledger* Feb. 2 issue, 1928.

<sup>2</sup> The definition given of "group buying" at a meeting called by the Nat. Wholesale Women's Wear Assoc. was as follows: "Gathering together of wholesalers' samples in a common meeting place, generally a resident buying office, for the purpose of allowing a jury of buyers to select which numbers its stores, or its group, shall purchase. *Women's Wear*, Feb. 27, 1928.

showrooms of the group one day each month throughout the year. Prior to this day, the dress buyer for the group will have gone into the market and picked out from 25 to 100 models to sell retail at a stipulated price, say \$39.50. These will be sent to the showrooms. The buyers see the dresses and vote favorably or unfavorably upon each one. Actual group purchases are then limited to those dresses receiving the highest number of votes. Orders are given at once and placed by the group with the proper manufacturers, who make up the merchandise, ship, and bill each store which ordered. The group keeps duplicates of the orders as well as a carbon of the manufacturer's statement. Other lines, such as coats, shoes, hosiery, underwear, men's shirts, blankets, furs, sheeting, and luggage are purchased in the same manner. This part of the work of the central organization is financed either through dues, the amount of which depends upon the purchases of each member, or through a prorating of expenses among members, according to group purchases.

Such organizations cannot be classified as cooperative retail buying associations, however. In the first place, when a group performs the functions of a resident buyer, it acts as the agent of the independent store, its principal, transacting business in its name. It is commonly paid an agent's commission and does not perform any functions not performed by an agent. When it operates as a buying group, the function of the central office is to facilitate the work of the buyers of the independent store members. These buyers themselves inspect the goods and assume all responsibility for purchase.

Buying groups do not, therefore, operate warehouses, purchase merchandise in their own name, deliver group orders, or finance or even guarantee payment. One group does operate a warehouse in which it<sup>1</sup> stores some imported stock purchased and paid for by the group.<sup>1</sup> This group and a few others<sup>2</sup> occasionally place

<sup>1</sup> Assoc. Merchandise Corp. (Retail Res. Assoc.), New York City.

<sup>2</sup> In so far as information is available, the following list includes the names of all the department store and clothing store groups. All have headquarters in New York City. Affiliated Clothiers, 200 Fifth Ave.; American Retailers Assoc., 128 West Thirty-first St.; Cavendish Trading Corp.; 1261 Broadway; Dry Goods Alliance, 315 Fourth Ave.; Dry Goods Union, 432 Fourth Ave.; Hart Flanagan Co., 455 Seventh Ave.; Hastings Res. Group, 1440 Broadway; Merchandise and Research Bureau, 455 Seventh Ave.; Nat. Department Stores, Inc., 112 West Thirty-eighth St.;

group orders in their own names for staple products, such as sheeting; merchandise is then apportioned to members according to a prearranged division. Such purchases are at present, however, very exceptional.

4. There is an increasing number of other cooperative schemes bringing the retailer and the manufacturer closer together. The Winchester-Simmons Company of St. Louis has a large list of retail customers who operate what are called "Winchester stores" and who are exclusive agents for a limited list of Winchester products. These agents are organized into associations with regular meetings which are attended by executives of the parent organization. These associations have standing committees whose duty it is to meet individually with some sales executive each month. At this time, the committee of retailers picks out certain items and quotes desirable retail prices which will successfully meet competition. The Winchester-Simmons Company then places a wholesale price on these items which will give the retailers a close profit on them. In the Oct. 8, 1927, issue of the *Saturday Evening Post*,<sup>1</sup> appeared an advertisement containing sale prices on a few items selected nationally.<sup>2</sup>

The cooperation between Drugs, Inc., and its Rexall agencies is consummated on the same basis. The Rexall 1-cent sales, which are now nationally advertised,<sup>3</sup> are encouraged by the

Retail Res. Assoc., 1440 Broadway; Specialty Stores Assoc., 35 West Thirty-second St.; Syndicate Trading Co., 240 Madison Ave.

Two department-store chains are operated as groups: Associated Dry Goods and May Department Stores.

There are two somewhat similar organizations in Europe. In Paris, France, is the *Société anonyme des magasins réunis* (S.A.M.R.) organized as a joint stock company in 1904 and now capitalized for 15,000,000 francs. The total number of department-store members exceeded 300 the first of 1926. At that time, the society employed 200 buyers. In Leipzig, Germany, *Grosshandels-gesellschaft*, M.B.H. (Grohag) buys for "individual concerns like department stores, dry-goods stores, and stores handling piece goods, linen goods, woolens, household articles, and toys as well as stores selling at one price" (like our 5 and 10 cent stores). In 1927, this organization had over 500 members. Both of these organizations, however, limit practically all of their work to resident, rather than to group, buying.

<sup>1</sup> P. 216.

<sup>2</sup> It is significant that this company has recently been reorganized, separating the wholesaling and manufacturing departments of the business.

<sup>3</sup> *Saturday Evening Post*, p. 207, Oct. 2, 1927.

manufacturing-distributing company through reduced prices for merchandise sold during this annual sale.<sup>1</sup>

The Footwear Guild, Inc., is another example of an organization which brings the manufacturer and retailer closer together.<sup>2</sup>

A final form of distributive cooperation which is not discussed in this book is the cooperative wholesale buying association. These may be typified by the Red and White Corporation, to the extent that it distributes Red and White and Blue and White branded merchandise, or the Independent Grocers Alliance, which plans to buy cooperatively for its wholesale members. The Federal Wholesale Druggists Association, composed of 20 cooperative associations, does a little association buying.<sup>3</sup>

<sup>1</sup> The American Druggists Syndicate might be included here. Originally operated for its retail members, it is to be under Schulte control for a period of 10 years, the stockholders having been guaranteed dividends of not less than 6 per cent annually during that period.

<sup>2</sup> George L. Moore, of the guild, writes: "The guild brings together independent retailers and manufacturers. It is the necessary third party in bringing about a cooperative set-up.

"Each retailer merchant and each manufacturer retains all identities. The retailer says, however, that he will adopt sounder principles of merchandising; that he will put in inventory control and will put into effect in his individual store the best of the chain-store principles of merchandising. He also agrees to look over the guild line when it is shown in his vicinity and make his purchases of guild footwear at a designated time. In other words, he covenants to cooperate with the manufacturer instead of fight him in the purchase of his goods. The manufacturer, on the other hand, agrees to produce footwear up to certain specifications laid down by guild experts, and, in view of the fact that this volume will be sold by him with greatly reduced sales expense, the manufacturer makes a price accordingly.

"The guild line is complete. All footwear carries the same brand name and is identified through advertising to the consumer.

"The guild is not primarily a mass-buying movement, although it partakes of some of the advantages of cooperative buying. Primarily, the guild is trying to make better merchants. The first thing the guild does is to go into a merchant's store, make a thorough survey of his stock, of his methods of doing business, of his sales records, and of every possible factor which relates to turnover and profit. The guild then tells the merchant some of the things he should do in order to put his own house in order.

"The merchant does not tie himself to buy guild footwear exclusively. He is given the right to seek any sources of supply, just as he has done in the past. Guild standards of merchandise, however, are maintained at such a high level that once a merchant begins to feature guild footwear he gradually works his stock around to a point where he carries the majority of guild lines."

<sup>3</sup> The association has made up and distributes a "Federal" toothbrush and is considering adding other items.

One of the purposes of the National Retail-owned Wholesaler Grocers Association is to pool purchases in order to secure lower discounts.<sup>1</sup> A group of 15 wholesale grocers<sup>2</sup> organized the Merchants Service Corporation, Chicago, in 1927, for the purpose of pooling their buying power.<sup>3</sup>

On the other hand, it may result in an organization such as the National Textile Distributors Corporation, organized in 1926, largely through the efforts of T. L. Stix of the Louis Stix Company, a wholesale dry-goods house in Cincinnati. This wholesale house, together with seven others in non-competing territories, has organized for the purpose of branding, distributing, and advertising nationally a line of Ser-Val goods, starting with hosiery. At present, a line of men's shirts and a line of infants' underwear are being distributed and sold in the same manner.

<sup>1</sup> This association reported a membership of 25, Jan. 1, 1929, and, at that date, had done no quantity buying in its own name.

<sup>2</sup> This group includes Ridenour-Baker Grocery Co., Kansas City; Pratt-Mallory Co., Sioux City, Ia.; Hubbard Grocery Co., Charleston, W. Va.; Schon, Stevenson & Co., Huntington, W. Va.; Midland Grocery Co., Columbus, Ohio; J. F. Humphreys & Co., Bloomington, Ill.; Jordan Stevens Co., Minneapolis; L. Paterson Mercantile Houses, Mankato, Minn.; Jamestown Grocery Co., Jamestown, N. Dak.; Bismarck Grocery Co., Bismarck, N. Dak.; Oliver-Finnie Co., Memphis; Plunkett-Jarrell Grocery Co., Little Rock; Morey Mercantile Co., Denver; Schull & Co., Indianapolis; and Joanne's Brothers Co., Green Bay, Wis.

<sup>3</sup> *Groceries*, p. 12, December, 1927.

## APPENDIX B

### TYPICAL ADVERTISEMENTS OF COOPERATIVE RETAIL BUYING ASSOCIATIONS

# ALLIED

## GROCERS

# Just Phone!

# Your Allied Grocer

For Greater  
convenience  
Use Your  
Phone and  
Allied Service

TODAY quality foods are essential to every housewife providing economy is present. Yet without convenience of service she is not receiving her full profit. Just step to your phone, place your order with confidence and your Allied Store will promptly deliver—

Direct to your kitchen.

IT PAYS YOU TO TRADE WITH AN ALLIED

**SUGAR, Pure Cane, 10 Pounds . . . . . 65c**  
**RAISINS, Sun Maid Seedless, 2 Pkgs. . . . . 25c**  
**SOUP, Campbell's Tomato, 3 Cans . . . . . 25c**  
**BEANS, with Pork, Van Camp's, 3 Cans . . . 25c**  
**BOULLION CUBES . . . . . 25c**  
**MUSHROOMS, Pieces and Stems, 8 oz. can 30c**  
**HERSHEY COCOA, 1/2 Lb. Can . . . . . 17c**  
**RED KIDNEY BEANS, Joan of Arc, 3 Cans 30c**  
**CRACKER JACK, for the Kiddies, Pkg. . . . 3 1/2c**  
**KAFFEE HAG, Pound . . . . . 65c**  
**LUNCH WAX ROLLS, 5 for . . . . . 14c**  
**FRUIT JAR RINGS, 3 Pkgs. . . . . 25c**  
**QUAKER OATS, Large Pkg. . . . . 23c**  
**MINUTE TAPIOCA, 2 Pkgs. . . . . 25c**  
**Libby's ASPARAGUS TIPS, Can . . . . . 30c**  
**BROMEDARY DATES, Pkg. . . . . 19c**  
**BEECHNUT SPAGHETTI, 2 Cans . . . . . 25c**  
**CHIPSO, Large Pkg. . . . . 21c**  
**BROOMS, Special Carpet . . . . . 40c**  
**LIQUID VENEER . . . . . 60c Bottle, 47c**

**SCOT-TISSUE TOILET TISSUE, 10 Rolls 80c**  
**GRAPE FRUIT, . . . . . 23c**  
**GRAPE JUICE, Welch's, Pinky 20c; Quarter 34c**  
**GINGER ALE, Canada Dry, 12 Bottles 52.30**  
**GRAPE NUTS, Pkg. . . . . 10c**

CLASS  
"A"  
STORES

It Pays to Trade With an Allied—  
For Names and Addresses.

See Page 68

Classified Section  
Telephone Directory



## More Stores and More Buyers

Each month shows an increase in the number of A. G. stores and in the number of satisfied women who market wisely. Why? —because of the quality merchandise with the price advantage and service advantage that A. G. offers.

<b>File</b> The Effective Fly-Exterminator 1/2 qt. . . . . 90c 1 qt. . . . . 13c	<b>A. G. Catnip</b> Pineapple Quality Small bottle . . . . . 14c Large bottle . . . . . 20c
<b>Kraut</b> Libby's, medium tin . . . . . 15c Libby's, large tin . . . . . 15c	<b>A. G. Coffee</b> Our own famous blend, roasted and packed in 8-oz. tins, always fresh, per tin . . . . . 40c
<b>Honey</b> Van Camp's, large tin . . . . . 10c	<b>Sugar</b> Pure Cane granulated, 5 lbs. . . . . 35c Purified, 1-lb. pkg. . . . . 10c Brown, 1-lb. pkg. . . . . 10c

**Shel-Roni**  
The New Tender, Delicious Food,  
3 pkgs. 25c

**Corn** . . . . . 15c  
**Peas** . . . . . 13c

**New Low Price**  
**Bosch**  
**Malt**  
**60c**  
 Save the Labels

**World's Best**  
**GEISHA**  
**CRAB MEAT**  
 Delicious Summer Dishes  
 Solid Cocktail Sandwiches  
 1/2-lb. Can . . . . . 38c

Quantity 1  
Delivered In

**BLANTON'S**  
 Creams, 1b. . . . . 2  
 Creams Net, 1b. . . . 2  
**60c**  
 Save the Label

**Bavarian Malt Syrup**  
 Bavarian Malt Syrup, German brand, top flavored. Large 3 1/2-lb. can. Highest grade of Malt Extract on the American market. It will meet with the approval of the best. Its quality will long be

The handy package serves 1000. It contains enough for several bottles, and it costs so little. For soups, stews, puddings, breads, Macaroni—you can always be sure of the best results with Fairlane All-Purpose Flour.

**OLD JUDGE**  
 Finest Quality  
 1-lb. Can,

54¢ tin.  
**29¢**  
 Fairlane's  
 Flour for All Baking

ALL A. G. STORES CARRY A FULL LINE  
OF FRUITS, VEGETABLES AND MEATS

**APPENDIX C**  
**UNITED CONSUMERS, INC.**

This organization used the following literature in 1921 to solicit "stockholders":

**OUR PROPOSITION TO YOU**

You can save the price of your stock in the U.C.I. while paying for it.

Realizing that at this time many retailers are carrying extraordinarily heavy stocks and that, in many cases, it would be inconvenient for them to withdraw \$125 from their business in one lump sum, we have decided to make you the following proposition: We not only make it possible for you to become a stockholder in the U.C.I. and participate in the benefits at once but also will actually make it possible for you more than to save the cost of your stock in the company while you are paying for it.

We attach herewith four consecutive notes for \$25. Fill out these notes and send them in with your application and check for \$25. Upon receipt we will send you our price list, etc.

You will be entitled to buy at our best prices on open account as soon as your notes and application are O.K.'d by our advisory board.

If you wish to pay cash in full for your stock, you will save the interest charges which the notes carry.

.....  
Application for stock

United Consumers, Inc.

287 Atlantic Ave., Boston, Mass.

GENTLEMEN: The undersigned hereby applies for 100 shares of the par value of \$1 of the capital stock of the United Consumers, Inc., payable as follows: \$25 with application and \$25 per month, beginning....., 192 .

The four last payments being severally covered and secured by promissory notes of even date delivered herewith and payable, respectively, on the dates named.

Dated at....., 192

United Consumers, Inc.

287 Atlantic Ave., Boston, Mass.

Thirty days after date . . . . . promise to pay to the order of the United Consumers, Inc., \$25 with interest at 6 per cent per annum until paid, being the second installment on the purchase price of 100 shares of the above-named corporation, issued to

Payable . . . . . Bank . . . . .

Value received. . . . .

No. . . . . Date . . . . . per . . . . .

Dated at . . . . ., 192 .

Federal Trade Commission *vs.* Mennen Co., respondent's exhibits 7 and 8.



## APPENDIX D

### INDEPENDENT GROCERS ALLIANCE OF AMERICA

A further explanation of organization and operation of the privately owned company is taken from its literature addressed to independent service wholesalers:

Under the charter, you would be granted exclusive rights in a definite territory designated by counties.

Once the charter is signed, we send a crew of four expert organizers to

1. Set up your inside organization to function efficiently under the plan.
2. Hold meetings with your salesmen and executive staff, explaining the part they will play in the big program.

3. Conduct meetings on your territory with carefully selected retailers explaining the plan in full and signing retailers to a 3-year agreement with your house.

4. Remodel, paint, and rearrange as many stores as our field crew can handle in the time spent on your territory. These stores will be models for your supervisor to follow. The I.G.A. stores are so splendidly and efficiently arranged that new business is developed at once and the new arrangement permits of at least 100 per cent increase in each clerk's selling capacity, thus greatly reducing the retailer's overhead and placing him in better position to compete.

5. After the store is all ready, marvelously organized clearance sales are conducted to dispose of all surplus stocks, surplus brands, etc., thus bringing in cash to pay for remodeling and painting and, in many cases, getting the retailer out of debt and on a steady discount basis.

6. After the clearance sale, the regular merchandising and advertising plan swings into action. Each retailer gets

- a. Window posters, changed in shape and color every week.

- b. A complete window-display bulletin illustrated—with complete instructions for display—weekly.

- c. A large placard to be the center of window display featuring timely topics—Lindbergh's great feat was set out in most attractive style when he made his memorable flight to Paris. Each week something new is featured.

- d. Every I.G.A. retailer gets 250 copies of a little four-page store news, featuring from 10 to 15 specials and containing interesting food facts—household hints, menus and economy dinners for every day. This is in the form of a miniature newspaper in colors and features the retailer's name, address, and telephone number. These are issued every other week for the retailer to distribute to prospective as well as regular customers. This wonderful advertising medium is now approaching 2,000,000 circulation.

e. Every I.G.A. store gets copy of the I.G.A. *Grocergram*, our official newspaper, telling of the progress of the I.G.A. all over the country, and offers an open forum for I.G.A. retailers to present their experiences.

f. Each I.G.A. retailer gets a merchandising bulletin in the *Grocergram* every issue.

g. Yearly, 4 full pages and 48 quarter pages in local newspapers are used to give the widest publicity in every city, thus placing the I.G.A. stores before the housewife in a manner as strong as the chain.

h. Every 4 to 6 weeks, a splendidly organized special sales drive is conducted. Special material, broadsides, etc., are sent to every I.G.A. retailer, thus placing before him the most modern and complete merchandising plans that can possibly be worked out.

After the installation is complete, then every month experts from headquarters go to your field, hold meetings with retailers, and keep the plan well in hand until the wholesaler is ready to go on himself.

All I.G.A. wholesalers meet every 4 to 6 weeks at headquarters, where buying is pooled. All you have to do is attend one of these meetings, where 107 jobbing points are represented, to grasp the tremendous advantage in mass buying. No wholesaler outside the I.G.A. can possibly equal the buying power of the I.G.A. wholesalers. The smallest I.G.A. wholesaler buys just as cheaply as the biggest, and all special allowances—brokerage, advertising allowances, etc.—are paid to the wholesaler every month. Not 1 cent of the savings is withheld at headquarters.

The retailer's \$3.50 per week, or \$182 per year, paid to the wholesaler provides sufficient funds to enable the wholesaler to pay for all advertising of every character sent from headquarters, also to pay membership dues of \$10 per year per retailer which comes to headquarters, and leaves \$64 per year per retailer for newspaper advertising and to pay the cost of installing the plan.

The cost of installing and reviewing the plan, which the wholesaler pays, ranges from \$3,500 and up, depending upon the size of the territory, plus the traveling and hotel expenses of the field crew.

After the plan has been in operation about 1 month and the review has been made, the follow-up work commences and continues for 12 months, after which the wholesaler should be able to carry on alone. A reasonable fee is charged for the monthly follow-up work, plus expenses, depending on the size of the territory covered.

## APPENDIX E

### CONTRACT USED BY ONE CONTRACT WHOLESALER

The following is the contract used by the Colony Food Stores, Boston originally called "United Food Stores":<sup>1</sup>

1. The company proposes to offer during the term of this agreement, to a selected list of retail food dealers, who wish to own and operate their own stores, the advantages of operating under the name of the "Colony Food Stores," the advantages of chain-store purchasing privileges, and the advantage of advice and instruction in chain-store business methods, without requiring such retail dealers to purchase shares of capital stock in corporations and without requiring such retail dealers to sell or part with control of their own business.

2. The company proposes to call the organization of stores operating under the within plan by the name of "Colony Food Stores," and upon the signing of this agreement, the party of the second part is given the right to use the name "Colony Food Stores" and become an authorized member of the National System of Colony Food Stores.

3. The company agrees to suggest plans and layout of shelving and fixtures according to modern chain-store standards and assist second party with suggestions as to displaying goods and marking the same for sale and giving merchandising plans to enable the second party to operate in conformity with other stores in the system.

4. The second party agrees to keep h . . . store in good condition at all times and to follow instructions, generally, of the system's qualified representative, who will act in the capacity of supervisor and keep the second party advised as to the system's uniform operation.

5. The second party agrees to paint the front of h . . . store in the Colony Food Stores" standard color at time of opening, and, at least once a year thereafter, the company to furnish, at cost, f. o. b. factory, special store-front enamel and paints for use on exterior and interior of stores, and the second party agrees to purchase and use such paints only. The company agrees to furnish second party printed painting instructions.

6. The company agrees to furnish a standard regulation "Colony Food Stores" sign and to loan same to the second party, delivery f. o. b. factory. The party of the second part agrees to deposit with the company the sum of \$27 at the time of delivery of the sign, the \$27 to constitute security for the return of said sign on demand, and the second party further agrees, at h . . . own expense, to install and maintain said sign on and across the front of h . . . store.

<sup>1</sup> Courtesy H. O. Kennedy, managing director, Nat. Merchandising Service Co., Cleveland.

7. In case of demand by the company for the return of the sign, due to failure of second party to comply with the terms of this agreement, delivery shall be made to the company's warehouse, delivery charges prepaid, and thereupon the deposit made by the second party shall be returned to second party, less a depreciation from the original amount of \$27 based on a 50 per cent per annum depreciation.

8. The second party agrees, during the term of this agreement, to purchase from the company or its authorized packers, manufacturers, or wholesalers, as far as possible, h... requirements in merchandise, and the company agrees to sell all merchandise which it carries or may carry in stock to the second party on a limited profit basis.

9. The second party agrees to pay for all merchandise purchased from the company or its authorized distributors on their regular terms, and any extension of credit beyond regular terms shall be a matter of special arrangement with the company or its distributors and must be satisfactorily and adequately secured.

10. The second party agrees to pay to the company the sum of \$10 at the time of signing this agreement to cover costs of membership, organization expenses, and, also, for items from "a" to "c."

a. Plans for initial stock-reducing sale.

b. Collection Department service.

c. One copy of printed diagram explaining the scientific arrangement of merchandise.

All the above items being essential, in advance of opening day.

11. The second party agrees to pay to the company the sum of \$1 per week, payable every fifth week, during the term of this agreement, to assist in defraying the cost of printing, postage, and office expense necessary in the interests of the second party and for plans, material, and items from d to l.

d. Plans for grand opening sale.

e. Not less than three window posters per week.

f. One instruction bulletin covering window trim and store display per week.

g. One special news bulletin per week.

h. One special descriptive display price card and selling talk covering talking-point item per week.

i. Special window posters for holiday sales.

j. Plans for semiannual clearance sales.

k. Plans for special merchandising events three times each year.

l. Personal trade-building service and expert retail merchandising counsel.

All the above items being essential in the successful operation of a modern Colony Food Store.

12. The company agrees to assist the second party in the advantageous purchase of merchandise not offered for sale by the company and further agrees to assist the second party in arranging for newspaper advertising, featuring items sold by the company and allied cooperators to the second party.

13. The second party agrees not to sell or assign this agreement except by the written consent of the company. This agreement shall continue

between the company and the second party for a period of 1 year from the above date and shall automatically renew itself for additional periods of 1 year each, unless notification to terminate the same is served in writing by either party on the other at least 30 days prior to the expiration of any term of the contract.

14. The second party agrees, upon termination of this agreement from any cause whatever, immediately to repaint h . . . store front in entirely different colors.

15. This agreement, as signed, is binding upon the successors, administrators, or assigns of each of the parties hereto.

## APPENDIX F

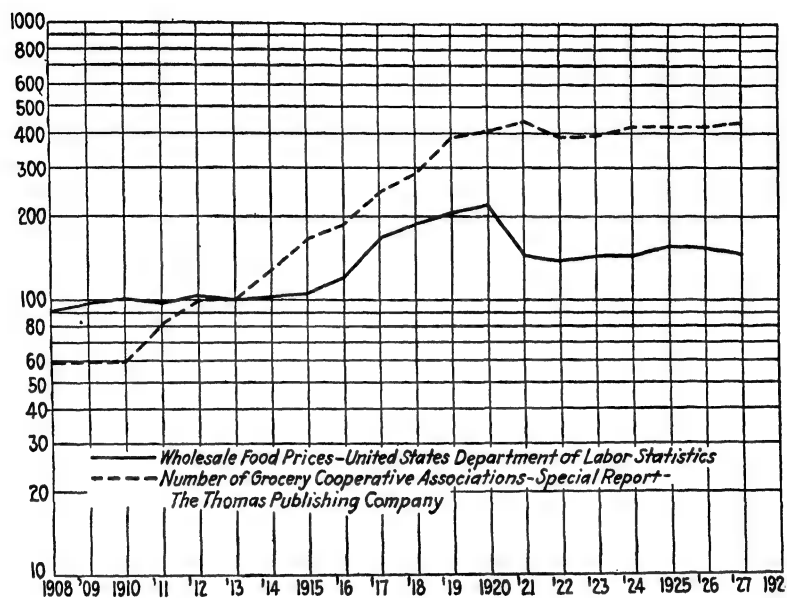
### INDEX OF WHOLESALE FOOD PRICES AND COOPERATIVE ASSOCIATIONS

WHOLESALE FOOD-PRICE INDEX, INDEX FOR, AND NUMBER OF COOPERATIVE  
RETAIL BUYING ASSOCIATIONS IN GROCERY TRADE AS REPORTED TO  
THOMAS PUBLISHING COMPANY FOR YEARS 1908 TO 1927, INCLUSIVE  
1913 = 100

	Index of wholesale food prices*	Index of grocery co- operative associations	Number of grocery co- operative associations reported†
1908	91	59	13
1909	97	59	13
1910	101	59	13
1911	97	82	18
1912	104	100	22
1913	100	100	22
1914	102	127	28
1915	105	168	37
1916	121	186	41
1917	167	245	54
1918	188	286	63
1919	207	382	84
1920	220	409	90
1921	144	445	98
1922	138	386	85
1923	144	391	86
1924	144	423	93
1925	157	423	93
1926	153	423	93
1927	146	436	96

\* U. S. Dept. Labor statistics.

† These figures represent the number of grocery cooperative retail buying associations reported to the Thomas Publishing Com., New York City, as in operation for each year. Although the names of all companies known to be semi-cooperatives have been taken from the list, some remain, since the company does not distinguish between a true cooperative and a private company selling buying privileges. It is estimated that 75 of the 96 are probably true cooperative associations see (p. 25).



## APPENDIX G

### COMPETITIVE CONDITIONS IN THE DRUG AND GROCERY TRADE

Dr. Paul Nystrom has, from time to time, estimated the total dollar volume of retail sales and the percentage of this volume distributed through a number of different retail channels. Although he published no figures for 1926, those for the year 1927 are as follows:

TABLE A.—MERCHANDISE DISTRIBUTED AT RETAIL BY DIFFERENT TYPES OF DISTRIBUTORS, 1927\*

	Percentage	Dollar volume (000,000)
Consumers' cooperative stores.....	1	\$400
Company stores.....	2	800
House-to-house selling.....	2	800
Mail-order houses.....	4	1,600
Department and general stores....	16	6,400
Chain stores.....	12	4,800
Independent stores.....	63	25,200
Total.....	100	\$40,000

\* *Retail Ledger*, 2d issue, April, 1928.

Following the classification of Nystrom, the following table of percentages and dollar volume of sales of the type of products sold by drug stores has been compiled:



TABLE B.—ESTIMATED VOLUME OF SALES OF THE TYPE OF PRODUCTS SOLD BY DRUG STORES, 1926

	Percentage	Dollar volume (000)
Consumers' cooperative stores....	0.5	\$9,000
House-to-house selling.....	1.0	18,000
Company stores.....	1.5	27,000
Mail-order houses.....	4.0	72,000
Department and general stores...	8.0	144,000
Chain stores.....	11.0	198,000
Independent stores.....	74.0	1,332,000
Total.....	100.0	\$1,800,000

The estimates for chain and independent drug stores include all products sold by these types. For the other groups, however, they include only drugs, druggists' sundries, and toilet goods and not such articles as ice cream and fountain supplies, electrical goods, stationery, and photographers' supplies. Exact estimates of the volume of trade of each type of retail outlet, especially the less important ones, are out of the question. Approximations of the more significant types, however, approach accuracy.

Nystrom estimates that 1 per cent of the total retail sales in this country is made by consumers' cooperative stores. It is evident that a large portion of this volume is in groceries and work clothing. One-half of this sum is generous for the estimate for drugs and allied products.

While some drugs, lotions, and other preparations are sold from house to house, the majority of the products of this type are clothing and household specialties. According to Nystrom, 2 per cent of all retail sales are made in this manner. Not more than 1 per cent of the total value of drug products are sold in this way.

Although Nystrom allows 2 per cent for company stores—those owned and operated by industrial organizations at mines, logging mills, and a few large industrial plants—these sales, again, tend to groceries and clothing. Probably not more than 1.5 per cent of the total sale of drugs and other drug products are sold to the ultimate consumer in this manner.

The mail-order houses probably sell about the same proportion of drugs and allied products as they do of all types, or 4 per cent.

This figure does not include the sales through chain stores which are operated by organizations originally mail-order houses.

The National Retail Dry Goods Association states that department stores with a volume of sales ranging from \$2,000,000 to \$5,000,000 during the year 1925 did 2.5 per cent of their business in "toilet articles, drugs." Nystrom includes the figures of general stores at this point of his classification, and, in the absence of data to the contrary, it is reasonable to assume that they sell a like proportion. Translated into dollars, this 2.5 per cent represents 8 per cent of the total business in the drug trade.

These five types of outlets, collectively, however, distribute only some 15 per cent of the dollar sales of drug products, the remaining 85 per cent being divided between chain stores and independent or unit retailers. According to the *Druggists' Circular*, there were at this time 2,173 chain drug stores in the United States out of 49,492, the total number given by "Population and Its Distribution."<sup>1</sup> According to *Retail and Wholesale Trade*, the average annual sales of chain drug stores in 11 cities were \$89,336, while those of independent stores were \$28,212. Although both of these figures may be a little high, because they are based only on stores located in urban districts, they are the most accurate estimates available at the present time for this period. Thus, the chain stores in this trade, in 1926, did approximately 11 per cent of the total business.<sup>2</sup>

The independent or unit retailer in the drug trade in 1926, therefore, did approximately 74 per cent of the retail business. This figure compares with 63 per cent for all types of merchandise.

With the above figures, the total drug chain-store and independent-store sales for 1926 equal \$1,529,000,000. Since this figure equals 85 per cent of the total, the total sales for the retail drug trade equal \$1,800,000,000.<sup>3</sup>

<sup>1</sup> See pp. 23-24.

<sup>2</sup> C. W. Dunn, in an address before the Harvard Graduate School of Business Administration, May 17, 1928, quoted a figure of 20 per cent.

<sup>3</sup> This total figure is probably slightly high, since it is partially based on the average sales volume for urban retail drug stores. Their sales are presumably higher than those in small cities and towns. Estimates from other sources fluctuate widely. From figures found in the *Druggists' Circ.* for August, 1926, total sales in drug stores (independents and chain systems) should be \$1,330,000,000, with the volume of the chains equaling \$221,137,518, or 17 per cent. According to *Retail and Wholesale Trade* (p. 40), the percentage of drug-store sales to total retail sales in 11 cities

Percentages similar to those given by Nystrom for the retail trade are not available for the wholesale drug trade, which can be broken down into four groups: the service wholesaler; cooperative retail buying associations and mutuals; newer wholesalers, such as the short-line jobber, desk wholesaler, wagon peddler, and others; and direct sale from manufacturer to retailer.

Approximately 60 per cent of the total sales of independent or unit stores is merchandise purchased from wholesalers.<sup>1</sup> According to Mullen, the chain store purchases about 20 per cent of its stock from the wholesaler.<sup>2</sup> With these two important estimates, the following table has been constructed:

TABLE C.—EXTENT TO WHICH DRUG PRODUCTS ARE SOLD DIRECT

Type of retailer	Source of purchase	Direct from manufacturer (000)	Through a middle-man (000)
Consumers' cooperative stores....	Both methods	\$3,600	\$5,400
House-to-house selling.....	Direct	18,000	
Company stores.....	Both methods	13,500	13,500
Mail-order selling.....	Direct	72,000	
Department and general stores....	Both methods	72,000	72,000
Chain stores.....	Both methods	158,400	39,600
Independent stores.....	Both methods	532,800	799,200
Total.....	.....	\$870,300	\$929,700

Thus, approximately one-half or 48 per cent of the total sales at retail go direct from the manufacturer to the retailer or are manufactured by the different types of retailers themselves.

in the United States in this same year was 3.69 per cent. With Nystrom's estimate at \$40,000,000,000 for the total retail trade for 1926, the independent and chain drug stores in the United States did \$1,473,000,000 of business.

A recent survey completed by a manufacturer of drugs, according to the November, 1928, issue of *Trends-Indications*, gives the total volume of sales for drug stores as \$1,250,000,000. Adding 15 per cent to these figures to make them comparable to the \$1,800,000,000 estimate, these three figures would be, respectively, \$1,520,000,000, \$1,772,000,000, and \$1,470,000,000. The per capita consumption for drug and allied products is not given by the Bureau of Labor.

<sup>1</sup> See p. 24.

<sup>2</sup> *Harvard Business Rev.*, p. 79, October, 1924.

These figures are based upon the assumptions that consumers' cooperative stores divide their purchases in the same ratio as do the independents; that the company stores being larger buy 50 per cent direct; that the tendency for the department store to buy direct is offset by the tendency for the general store to buy through middlemen; and that the house-to-house selling companies and mail-order houses either manufacture their own preparations or buy direct.

Taking the average mark-up for independent stores as 34 per cent<sup>1</sup> as a reasonable average to secure the wholesale price, \$1,800,000,000 at retail becomes \$1,188,000,000 at wholesale, 52 per cent of which is sold by middlemen. Thus, the total sales by all types of middlemen equal approximately \$617,760,000. Estimates of the total sales of service wholesalers in the drug field average around \$450,000,000,<sup>2</sup> while cooperatives and mutuels do about \$50,000,000 annually.<sup>3</sup> The final figures can thus be listed:

Service wholesaler.....	\$450,000,000
Cooperatives and mutuels.....	50,000,000
Newer methods and other types..	117,760,000
Direct.....	570,240,000
Total.....	<u>\$1,188,000,000</u>

The distributive organization in the grocery trade is fundamentally the same, although the relative importance of the different factors varies. The percentages in Table D for this trade were arrived at in the same manner as those for the drug field.

It is reasonable to assume that consumers' cooperative stores, company stores, and house-to-house selling companies sell the same proportion of groceries as they do of all types of merchandise.

Mail-order houses sell some groceries by mail and make some sales in central warehouse stores, although their chains of department stores do not include grocery departments, in most cases. Because, however, of the perishability of grocery prod-

<sup>1</sup> See p. 24.

<sup>2</sup> Dr. E. L. Newcomb, in a statement, estimated the sales volume of service wholesale drug houses at \$400,000,000. Barnet Motley, chairman Proprietary Committee, Nat. Wholesale Druggists Assoc., more recently estimated this figure as \$500,000,000.

<sup>3</sup> See p. 24.

ucts and high transportation costs, sales are limited. Few department stores have grocery departments. In the census of distribution covering 11 cities, department stores sold approximately 2.2 per cent of the grocery products,<sup>1</sup> but such a figure is high for department stores, in general. On the other hand, Nystrom has included general stores in this group, a fact which would tend to increase the figure to the estimate of 3 per cent.

TABLE D.—ESTIMATED VOLUME OF SALES OF GROCERY AND ALLIED PRODUCTS BY DIFFERENT TYPES OF DISTRIBUTORS, 1926

	Percentage	Dollar volume (000)
Consumers' cooperative stores....	1	\$71,000
Company stores.....	2	142,000
House-to-house selling.....	2	142,000
Mail-order houses.....	2	142,000
Department and general stores...	3	213,000
Chain stores.....	37	2,622,000
Independent stores.....	53	3,768,000
Total.....	100	\$7,100,000

The figure of 37 per cent for chain stores was arrived at by a method similar to that one already described for drug stores.<sup>2</sup> Sources quoted elsewhere<sup>3</sup> estimate the total number of retail grocery stores and delicatessen shops at 273,734, of which 57,000 are chain stores. *Retail and Wholesale Trade* gives the total annual sales for independents as \$17,380 and chains as \$45,997.<sup>4</sup> The figures for this trade are probably more comparable than the average sales figures in the drug trade, since the average grocery store serves a much smaller clientele and includes a more related group of products.

With these figures subtracted, the independent or unit retailer in the grocery field in 1926 did approximately 53 per cent of the

<sup>1</sup> Retail & Wholesale Trade, Table X (Retail), opposite page 56, Chamber of Commerce of U. S.

<sup>2</sup> In a survey recorded July 1, 1927, *Chain Store Age* estimated that chain stores in the field equaled 30 per cent of the total number and did a volume of business of \$2,394,400,000. Another estimate in *Printers' Ink Weekly* for Aug. 2, 1928 (p. 126), is \$2,500,000,000.

<sup>3</sup> See p. 25.

<sup>4</sup> *Retail and Wholesale Trade*, p. 97, 1926.

retail business. This figure compares with 63 per cent for all types of merchandise.

By accepting the total number of chain and independent stores together with the sales of each as given above, a sum of \$6,389,000,000, and realizing that their total annual sales for 1926 equal 90 per cent of the total sales considered in this discussion, the total sales for the grocery trade equal \$7,100,000,000.<sup>1</sup>

The wholesale grocery trade can be broken down into four subtotals: "service" wholesalers, whose activities would be divided into service, cash and carry, and contract; cooperative retail buying associations; new types, such as desk jobbers, wagon peddlers, and other less important kinds of newer distributors; and direct selling, in which the wholesaling functions are performed, in part, by the manufacturer.

Approximately 55 per cent of the total sales of independent stores are purchased at wholesale.<sup>2</sup> According to Mullen, the chain stores buy about five-sixths of their stock of merchandise direct.<sup>3</sup> The other figures can be divided as in the case of the drug trade.

TABLE E.—EXTENT TO WHICH GROCERY PRODUCTS ARE SOLD DIRECT

Type of retailer	Source of purchase	Direct from manufacturer (000)	Through a middleman (000)
Consumers' cooperative stores.....	Both methods	\$32,000	\$39,000
House-to-house selling.....	Direct	142,000	
Company stores.....	Both methods	71,000	71,000
Mail-order selling.....	Direct	142,000	
Department and general stores....	Both methods	106,500	106,500
Chain stores.....	Both methods	2,185,000	437,000
Independent stores.....	Both methods	1,695,600	2,072,400
Total.....		\$4,374,100	\$2,725,900

<sup>1</sup> This figure includes only grocery products handled by retailers and not those sold direct or through wholesalers to hotels, restaurants, and institutions. A recent study of the Amer. Grocery Specialty Manufacturers Assoc. contains the figure of \$8,000,000,000. *Distributor*, October to November, p. 31, 1928.

<sup>2</sup> See p. 25.

<sup>3</sup> *Harvard Business Rev.*, p. 79, October, 1924.

Thus, almost two-thirds, or 62 per cent, of the total sales at retail go direct from the manufacturer to the retailer or are manufactured by the retailers themselves. With the average mark-up for the independent as 19.8 per cent<sup>1</sup> as the average retail margin for all types, the volume of these sales at wholesale equals 80.2 per cent of \$2,725,900,000, or \$2,186,000,000.<sup>2</sup> This sum is not necessarily an estimate of the total sales of grocery products at wholesale, since it does not include sales made direct to hotels, restaurants, and institutions. It is known that approximately \$114,000,000 of this volume is handled by the cooperative retail buying associations. The remainder or slightly more than \$2,000,000,000 must be divided between the service wholesalers and the newer types of wholesale houses in the grocery trade. Because of the paucity of information available concerning the annual volume of sales as well as the number of wholesalers classified as above, no further estimates can be approximated.<sup>3</sup>

<sup>1</sup> See p. 26.

<sup>2</sup> The average annual sales of 1,170 grocery wholesale houses located in 11 cities for the year 1926 was \$878,901 (*Retail and Wholesale Trade*, p. 133). Assuming, for the moment, that this average figure was typical, total sales for the United States would be approximately \$7,200,000,000 (\$878,901 × 8,167 = number of wholesale grocery houses as reported by "Population and Its Distribution," p. 313). Such a figure is too high, even when hotel, restaurant, and institutional sales are included, since the 1,170 wholesalers in these 11 cities are too large to be typical. A recent study conducted by the Nat. Wholesale Grocers Assoc. includes 6,348 wholesale houses which are reported to be doing a business of slightly more than \$4,100,000,000 (no date given). The statement is made that this figure represents 36 per cent of the total wholesale value of food products.

<sup>3</sup> A business man in the grocery trade of Chicago estimated that in the summer of 1927 the wholesale distribution of groceries in that city was divided as follows:

	Per cent
Cooperative associations.....	10
Independent cash-and-carry wholesalers.....	12.5
Service wholesalers.....	42.5
Chain stores (direct).....	35
	<hr/> 100

## APPENDIX H

### REASONS FOR JOINING A COOPERATIVE ASSOCIATION

THE MOST IMPORTANT REASONS FOR JOINING A COOPERATIVE RETAIL  
BUYING ASSOCIATION, AS REPORTED BY 152 RETAIL DRUGGISTS

Total reasons given.....	203
Lower purchase price.....	161
Saving in purchases.....	120
Meeting competition.....	12
Securing quantity price in $\frac{1}{2}$ -dozen lots.....	14
Keeping service jobbers in line.....	15
Better service.....	13
Spirit of cooperation.....	7
Investment.....	5
"Only local wholesale house".....	4
Recommendation of other members.....	2
Carrying smaller stocks.....	2
Completeness of stock.....	2
Reduction of inventory.....	2
"Have a voice in management".....	1
"Protect myself against unfair practices".....	1
"Force improvement in my own management".....	1
"Reduce price cutting".....	1
"To secure free deals".....	1

THE EXTENT TO WHICH THOSE REASONS ARE STILL THE MOST IMPORTANT

Total.....	152
Yes.....	136
No.....	11
No answer.....	5

IF NOT, WHAT IS YOUR PRESENT REASON FOR CONTINUING YOUR  
MEMBERSHIP?

Total.....	11
Joined for savings; continues for service.....	3
Joined for savings; continues for service and to keep jobbers in line.....	2
Joined on recommendation; continues for savings.....	2
Joined for savings; continues for investment.....	1
Joined for savings; continues for delivery and variety of stock.....	1
Joined to meet competition; continues for service and savings.....	1
Joined because the exchange was the only full-line house; continues for special discount of 10 per cent on patents.....	1



# APPENDIX I

## WEAKNESSES OF COOPERATIVE ASSOCIATIONS

### WEAKEST PHASES OF COOPERATIVE RETAIL BUYING ASSOCIATIONS ACCORDING TO 101 RETAIL DRUGGIST MEMBERS

Total answers.....	107
Storage.....	39
More complete lines.....	35
Better lines of merchandise.....	2
More nationally advertised merchandise.....	2
Management.....	15
Improvement in management.....	7
Reduction of operating expenses.....	3
Greater uniformity in pricing.....	2
Understudies for executive.....	1
Better order-filling department.....	1
Better stock control.....	1
Selling.....	15
More emphasis on merchandising.....	7
Cooperative newspaper advertising.....	4
New catalogue.....	2
Uniform store fronts.....	2
Credit.....	5
Further extension of credit.....	5
Organization.....	4
Larger membership.....	3
Combination of drug cooperatives.....	1
Cooperation.....	3
Better spirit of cooperation.....	2
More voice in management.....	1
Price.....	3
Lower prices.....	3
Delivery.....	3
Quicker shipments.....	3
Everything.....	1
Nothing.....	19

## APPENDIX J

### ADVANTAGES OF COOPERATIVE ASSOCIATIONS

MOST VALUABLE PHASES OF COOPERATIVE RETAIL BUYING ASSOCIATIONS,  
ACCORDING TO 121 RETAIL DRUGGIST MEMBERS

Total answers.....	244
Service (largely delivery).....	65
Low purchase price.....	64
Cooperation.....	55
Spirit of cooperation.....	35
Voice in management.....	20
Selling.....	21
Merchandising help.....	9
Quantity price in $\frac{1}{12}$ -dozen lots.....	8
No calls from salesmen.....	4
Good management.....	14
Storage.....	10
Ability of retailer to carry minimum stock.....	6
Variety of stocks.....	4
Organization: financial investment.....	9
Everything.....	6

## APPENDIX K

### REASONS FOR NOT BUYING ALL MERCHANDISE FROM ASSOCIATIONS

#### REASONS WHY MEMBERS OF COOPERATIVE RETAIL BUYING ASSOCIATIONS DO NOT BUY ALL THEIR MERCHANDISE FROM THEIR ASSOCIATION

Total retailers reporting, 142

Total reasons.....	203
Inadequate stock of merchandise.....	139
"I cannot obtain all items".....	95
"Outs".....	24
"Some manufacturers will not sell to the association"	14
"No one organization has full line".....	6
Lower prices from other sources.....	37
"Association price is higher".....	14
"Can purchase direct from manufacturers".....	21
"Salesmen offer special bargains".....	2
Inadequate service.....	16
"Other distributors are nearer".....	5
"Service is not satisfactory".....	7
"Other distributors extend more credit".....	3
"Association has no salesmen".....	1
Need for competitive market.....	4
"There is a need for service jobbers".....	2
"I give others a chance when the price is the same"	2
Difficulty of turning down salesmen.....	4
Loyalty to former distributors.....	3

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